HOUSE OF REPRESENTATIVES, UNITED STATES

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE

DURING THE

SECOND SESSION OF THE SIXTY-FIRST CONGRESS

IN

THREE VOLUMES

Vol. I. HEARINGS ON ESTIMATES OF APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE 30, 1911

Vol. II. HEARINGS ON BILLS FOR THE PREVENTION OF "DEALING IN FUTURES" ON BOARDS OF TRADE, ETC.

Vol. III. HEARINGS ON MISCELLANEOUS BILLS

VOL. II

SIXTY-FIRST CONGRESS, SECOND SESSION

WASHINGTON
GOVERNMENT PRINTING OFFICE
1910

HOUSE OF REPRESENTATIVES, UNITED STATES

HEARINGS

BEFORE THE

COMMITTEE ON AGRICULTURE

DURING THE

SECOND SESSION OF THE SIXTY-FIRST CONGRESS

IN

THREE VOLUMES

Vol. I. HEARINGS ON ESTIMATES OF APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE 30, 1911

Vol. II. HEARINGS ON BILLS FOR THE PREVENTION OF "DEALING IN FUTURES" ON BOARDS OF TRADE, ETC.

Vol. III. HEARINGS ON MISCELLANEOUS BILLS

Vol. II

Sixty-first Congress, Second Session

WASHINGTON
GOVERNMENT PRINTING OFFICE
1910

PREVENTION OF "DEALING IN FUTURES" ON BOARDS OF TRADE, ETC.

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Wednesday, February 9, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott (chairman) presiding.

The CHAIRMAN. In compliance with the order that was made by the committee at its last meeting, the object of the meeting this morning is to take up the consideration of the bill H. R. 2159 and a number of other similar measures which are known generally as the "anti-option bills." A number of gentlemen are here desiring to be heard on one side or the other of this question, and it might perhaps expedite business if we could have all such gentlemen make themselves known at this time and state what credentials they bear, if any, or whom they represent. May I ask, first, that Mr. Barrett, who is the president of the Farmers' Union, I believe, state what gentlemen are with him as representatives of that organization.

Mr. LEVER. Mr. Chairman, if you will permit me just a word; this is such a very important hearing, and means so very much to the country, that I feel that the witnesses—because they are witnesses—should be put under the oath of this committee, and I therefore move you, Mr. Chairman, that you administer the ordinary oath to the witnesses.

(The question was taken and the motion was agreed to.)

The CHAIRMAN. Mr. Barrett, I am not asking you now to take the witness stand, but will you be kind enough to give to the stenographer a list of the names of the gentlemen who are here as the official representatives of your organization?

Mr. BARRETT. As the representatives or spokesmen?

The CHAIRMAN. As the representatives, and they can then be presented as spokesmen afterwards.

(The names of the following gentlemen were handed to the stenographer by Mr. Barrett as representing the National Farmers' Union: Charles S. Barrett, T. J. Brooks, D. J. Neill, Dr. William Bradford, . F. Domblaser, H. L. Pettit, W. A. Morris, John Grady, M. B. Tapp, and S. M. Shufford.)

The CHAIRMAN. Gentlemen who are here representing organizations will please hand to the clerk of the committee their names and credentials. The only gentleman who has spoken to me is Mr. Morrow, of Memphis, and I will ask him to be kind enough to present his credentials to the clerk of the committee, and I will ask Mr. Cramp, of New York, also to do so.

Mr. BURLESON. May I suggest that an announcement be made of those who are going to appear as witnesses in order that it may be

known who they are, with a view to preparing for any cross-examination?

The CHAIRMAN. That was the purpose that the chairman had in making this suggestion that the names be presented as soon as possible.

Mr. MANDELBAUM. I represent the New York Cotton Exchange, Mr. Chairman. We have not any special credentials here, but as I understand it, you have been notified by the president of the Cotton Exchange as to the committee.

The CHAIRMAN. I have received his notification. That will be entirely satisfactory to the committee. Mr. Barrett, will you indicate your spokesman?

Mr. BARRETT. Mr. Brooks will represent us at this hearing.

Mr. CONE. Mr. Chairman, I came up here more as a spot-cotton dealer or mill man, but I would like to make a few remarks during the course of this hearing, more as a spot-cotton dealer and mill owner than as representing any other interests.

The CHAIRMAN. We will be very glad to hear you. It would seem as though the most natural method of procedure would be for the proponents of the measure and its supporters to present their views first, and I will ask Mr. Brooks as representing the producers of cotton if he is ready now to take the stand.

TESTIMONY OF MR. T. J. BROOKS, OF ATWOOD, TENN.

(The witness was sworn by the chairman.)

The CHAIRMAN. Let me state first, Mr. Brooks, that it is the custom of the committee to feel pretty free to ask questions of gentlemen appearing before it, the questions of course always being asked with courtesy and in good faith, to elicit information; but we wish to consult the convenience of gentlemen who appear before us, so far as possible, and I would like to ask you whether you would prefer to make your statement first and then have whatever questions the members may wish to ask put to you afterwards, or whether you would prefer to submit to interruptions at any time?

Mr. BROOKS. That would depend upon the amount of time granted. If the time was very limited, I would prefer to make the talk and then be asked questions.

The CHAIRMAN. I think it would perhaps expedite the hearing if the witness should be permitted to make his statement first, and the members would reserve their questions until he has completed his statement.

Mr. BROOKS. Mr. Chairman and gentlemen of the committee, as has been announced, I am the representative of the Farmers' Educational and Cooperative Union of America, the largest agricultural organization in the world, to talk upon this subject of the abolition of future dealing, and if it is the desire of the committee I will give the names of the States that the organization exists in.

The CHAIRMAN. I think it would be well to present such a list, so as to give the committee an idea of the scope of the organization.

Mr. BROOKS. We are organized in Washington, Oregon, Idaho, California, Arizona, New Mexico, Colorado, Nebraska, Iowa, Kansas, Oklahoma, Texas, Louisiana, Arkansas, Missouri, Illinois, Kentucky, Tennessee, Mississippi, Alabama, Georgia, Florida, South Carolina,

North Carolina, Virginia, and Indiana; twenty-nine States, if I have named them all.

Mr. Chairman, this is a serious question; it involves hundreds of millions of dollars, and millions of people—the welfare of millions of people, financial and otherwise—and I shall not deal in jest nor in billingsgate. It shall be our purpose to try to approach this subject from the standpoint of statesmanship and welfare of the mass of the people, and not to argue simply from the standpoint of the selfish interest of any class or any section of the country; and without going into the details of the organization and rise and development of the exchanges with which the committee is doubtless familiar, I think it is best to come at once to those points of cleavage between the advocates of future dealings and those who are opposed to them. Mr. Chairman, innocence in youth is no excuse for misconduct in age, and it does not matter how innocent or how serviceable an institution may be in its incipiency and early development if it develops characteristics that are evil it should not escape retribution commensurate with the crime, and if we can point out that there are evils now committed by these exchanges in the practice of dealing in futures we think that will be the main task for us, as we will not discuss the merits or demerits of any particular bill now under consideration. We trust to the wisdom of the committee and of Congress to frame a bill that will accomplish the purpose intended, and the purpose intended is the thing we wish to discuss.

Mr. Chairman, the exchanges are incorporated institutions composed of brokers who elect their own members, make their own rules, and limit their own membership, at least in part of them, and do not report to the public the volume of business that they do in a year, nor all of the other methods used in carrying on their business. They are not, as they were originally, organizations or institutions primarily for the purpose of bringing together buyers and sellers of spot cotton or grain, as the case may be. The chief function of that exchange is supposed to be to furnish a place and the means by which buyers and sellers come together and carry on their business; but the chief function of the exchange as defined by Mr. Herbert Knox Smith is to-day to furnish uniform quotations through the country and to furnish a place to hedge. Now, Mr. Chairman, it may be within the minds of some people, for reasons sufficient to them, the chief function of the exchange as now operated is to offer an instrument or a temptation for investors, and to get considerable revenue out of the forfeitures of the margins staked on those changes in prices which the exchange deals with. As the principle is universally the same in handling grain and in handling cotton, and as we are not at all considering the subject of stock exchanges, I will confine most of my remarks to the cotton part of this question—the cotton exchange. The methods of the cotton exchanges are not understood by the mass of the people. Many of these rules are adopted solely for the reason that they do not want to be compelled to deliver cotton that is bought through the exchange. Since the custom of giving a through bill of lading from interior points to foreign markets has been in vogue, it has almost destroyed one of these exchanges as a spot cotton market, namely New York. This has necessitated the rules of the exchange being so arranged as to give the seller an advantage in trade, and this is why when futures are

bought so many bales of cotton are bought, without regard to the value of the cotton, the grade of the cotton, or the condition of the cotton. Middling grade is the basis in classifying cotton. When a buyer that really wants cotton buys, he may have to accept a grade that he can not use. That makes it an undesirable place to call for deliveries, so he seldom makes the demand. In the New York exchange another obstacle has been raised that operates against the buyer; by setting, for ten months ahead or thereabouts, a certain difference in price between different grades. The relative values of these different grades may be quite different from the commercial values of these different grades at certain seasons of the year, owing to weather conditions during the gathering season which determine, to a great extent, the amount of each grade that there is to market for the season. All of these things make it difficult for the purchaser to get the kind of cotton he desires on a future contract, deliverable through an exchange, so most of the cotton that is bought for future delivery is bought from cotton dealers outside of the exchange. I refer to those who go on the exchange and hedge to cover actual cotton which they contemplate buying, but which they have sold to be delivered at a specific price. These are either spinners or cotton merchants.

Mr. Chairman, it does not make any difference whether we take the spinner or the cotton merchant as an illustration, so we will take a cotton merchant who is an exporter. He goes to a mill, we will say, on the 9th day of February, and he makes a contract to deliver to that mill next October 1,000 bales of cotton at, say, 14 cents. He does not positively know that cotton will be 14 cents or above 14 cents or below 14 cents, so that he takes chances on having to pay more for that cotton than he has promised to deliver it for, unless he is allowed to hedge, as it is called; so that he turns around and buys the same number of bales on the exchange to be delivered at the same time that he is to deliver to the spinner. This is done with an understanding in his own mind that the relative prices of futures and spots will remain the same, or approximately so, at least; so that if cotton goes up and this exporter has to pay more for it than he has promised to deliver it for, he wins as much on his hedge as he loses on the real cotton that he handles. Mr. Chairman, that cotton that he actually buys from the American producer through his agents and actually delivers to the mill is not carried through the exchange; it is a separate, independent transaction. The delivery of that actual cotton from the producer to the spinner is a contract that is carried out solely upon its own merits, and this outside issue of this exporter hedging to cover those sales is an independent transaction. They are not linked together, except to the extent that the same man is concerned in both transactions. The books of the exchange carry no record of the actual cotton that is bought and actually delivered. The exchange only has upon its books the record of the hedging that was done by the exporter.

Now, he puts up a margin, and the man against whom his cotton is placed in the exchange by the broker has to put up a margin. The margins vary from $1 a bale up to as high as $10, I have been told, that are required. Those margins are merely required because the fluctuation in price may be such that it will demand more than $1 a bale to pay the difference in prices that the cotton sells for on the date

of delivery and the date that the contract was made. The man against whose account, or margin, or hedge, or the stake that he puts up through a broker on the exchange—the man whose account this exporter is placed against—is nearly always a speculator. He is not apt to be another mill man or another exporter; he is simply a speculator who is willing to take changes on the rise and fall of the market, so that he is not in the market as a hedger. Half of the project is a speculative project, and the other is hedging pure and simple, in nearly all of those cases where hedging is carried on. So that if investing in futures simply as a speculation is gambling, as it is called, then half of almost every proposition of this kind is gambling, and so far as the morals of it are concerned we see no differenec whatever in a hedging transaction and in a purely speculative or gambling transaction in the rise and fall of prices. Mr. Chairman, this exporter will perhaps think that he ought to be allowed this privilege, as it will enable him to make contracts many months ahead to deliver cotton at certain prices, when otherwise he would not be willing to risk the rise in the price of cotton; so that hedges are made with the view that spot cotton may go up, and the hedge is made against the possible loss that would occur in that case; and we would ask, from the standpoint of statesmanship, is it the duty of any class of citizens anywhere, or scattered over the country, to furnish the loss that this business man happens to sustain incidentally in the transactions that he is carrying out? Is anybody under obligation to sustain that loss for him any more than some one is under obligation to sustain the loss of the farmer when he has to take chances with the elements in producing a crop and then take chances with the fluctuation of prices in getting the price for what he has produced?

We see no cause why a system should be tolerated on the basis that it furnishes protection for a certain class of citizens when that protection must necessarily be at the expense and absolute loss, dollar for dollar, upon the part of some other citizen who is just as important as he is; so we see no justification of hedging, if it is based upon that one claim alone. Besides, there are so many other things that are of as general use almost, the volume of business in which is enormous, even greater than in cotton, that are handled year by year, upon which there is no speculation in futures. There are no futures on wool, I understand, and that enters into almost every use that cotton does. If there is no exchange or future dealing on wool, why should you not carry on the business of handling cotton without future dealings? There is none on hay, there is none on iron, there is none on coal, and there is none on an enormous amount of as important products that require as much ingenuity, as much business sagacity, to conduct business as it does to handle cotton, and we do not see why this special article should be subject to it, nor do we think that it should be subject to it any more than these others. There are no futures on farm machinery, that helps the farmer to produce everything he raises, and farm machinery is made years before it is sold, often. A manufacturer may produce a machine five years before it is sold. Those manufacturers do not hedge in order to be able to know how many machines to make.

Mr. Chairman, it is sometimes argued that hedging is a species of insurance, and that it is just as legitimate as taking out fire insurance or life insurance. I will call your attention to the summary of the

report of the Commissioner of Corporations on cotton exchanges, by Mr. Herbert Knox Smith, on page 6, at the top of the page, in which he uses the following language:

Contrary to long-established theory, it has thus lately been urged that hedging is a form of insurance, a "division" of risks. Though often, for convenience, hedging is referred to as "insurance," it is not insurance, nor is it a "division" of loss. Insurance is indemnity for actual destruction of property. There is no destruction of property in changes of cotton values. Loss on one side is balanced by gain on the other side. Hedging is an entire transfer or elimination of a speculative risk; that risk is never "distributed," as in insurance. If the hedging function fails, an entire class of hedgers on one side of the market must suffer to the full amount.

Without elaborating that thought further, I think that statement is clear and covers that point.

If the hedging business was confined to the actual number of bales of cotton raised and sold, I doubt if it would have attracted such widespread attention. As only a certain part of each cotton crop is actually covered by hedges by those who handle the spot cotton, it follows that only that per cent of each year's crop can be legitimately hedged, and this would limit each year's options to something like four or five million bales, or perhaps six million bales, and at the furthest extent it could not exceed the number of bales that were produced in a year, and it seems that the most reliable figures that we can obtain show that 100,000,000 bales are bought and sold on the exchanges of this country every year; so that they can scarcely be called actual cotton exchanges, but are more option exchanges than cotton exchanges.

It has occurred to me in the discussions and talks with gentlemen who are interested in this subject on the opposite side, that almost invariably they leave out any consideration whatever of the welfare of those who lose by investing in futures, and we wish that point to be emphasized, that every time a spinner or exporter or cotton dealer of any kind is saved from loss by this method, somebody has sustained that loss, and it is an absolute loss on his part; he gets no equivalent, but loses the margin that he staked against the margin staked by the spinner or the exporter or the cotton dealer; and we would like to know in what school of ethics, philosophy, or morals is one class of citizens under obligation to sustain the losses in business of another class. We wish to look at this from the standpoint of the greatest good to the greatest number, I repeat. We are not simply claiming that it would put money in the pockets of any particular citizens, and for that reason we would want the law passed to carry out the purposes for which we are contending, and we hope that that is the viewpoint of the committee. We will leave it with the committee and the minds of the people generally as to what class or category this purely speculative feature falls in, whether it is legitimate or illegitimate, whether it is gambling pure and simple, or whether it is a species of business which modern developments have necessitated. We have our own opinions, and we grant to every other his. The word "legitimate" has more than one meaning, perhaps. Anything is legitimate in a legal sense that is tolerated by law. In another sense, only those things are legitimate that are in keeping with ethics and principles of morals. We see no distinction in the methods pursued in the machinery that is operated between hedging and pure gambling on the exchange. The only difference is that the individuals who do the one are also actual traders in cotton, while the

others are not. The buyer is called a bull and the seller is called a bear. The bull is the man who buys to get in and sells to get out, while the bear is a man who sells to get in and buys to get out or forfeits his margin and gets out the best way he can. Mr. Chairman, it is not always the case that even a purchase of futures on the exchange is a protection to the cotton dealer. The relative position of the spot and future markets must remain approximately the same for it to be an adequate protection. If they converge or diverge, it changes the feature altogether. Sometimes the man who has hedged can actually lose both on his spot deals and on his future deals. If he contracts to deliver cotton at a certain time and at a certain price and the price of spot cotton goes up and he has to pay an advanced price and at the same time futures go down, then he loses on both. Those things do not occur very often, but such things have happened.

It has been stated that it enables those who are dealing in wheat or cotton to pay the producer more than they could possibly pay or would be willing to risk if they could not hedge. Mr. Chairman, all we want is whatever follows the untrammeled operations of the law of supply and demand. All we would ask is to give the normal operation of the law of supply and demand full sway. Let that help who it will or be to the detriment of who it will, it is justice. That is honesty, that is equity, and we think to demand more is wrong, and we think to be satisfied with less is cowardice. We see no excuse for anyone, even though he be a farmer, wanting the hedging business to go on, if it puts money in his pocket at the expense of somebody else who gets no equivalent. We want nothing but equity, if we know ourselves, and we would not for one instant advocate the continuance of this system if we thought it put money in our pockets by robbing somebody else of that additional price that we might obtain. You can not make that too positive on our side. We are perfectly willing to take the results, the consequences, of abolishing these futures, and the vague solicitude that may be offered by our friends on the other side will not be appreciated, if they think that they are simply in the business for our benefit. Everybody is a consumer, and everybody ought to be a producer, if he is able. He is either one or the other, or a parasite, and to unload a loss upon victims is wrong, to unload a loss upon those who are victimized by having a temptation held up that here is a chance to make money, and then to get them into the game and freeze them out, we say is not based upon good political economy, and we do not want it to continue, though perhaps once and a while incidentally even a producer might get some of the swill.

In connection with this question of prices, it seems that the people of the United States are very much alarmed over the recent inflation of prices, and I would like to just call your attention to one little fact for the sake of impressing one point. Suppose cotton is selling at 10 cents a pound and then jumps to 15 cents a pound. The average dollar cotton shirt weighs 9 ounces, but we will just say, for the sake of making the illustration simple, that it weighs a pound, 16 ounces. Then, how much would that shirt be worth which is now worth a dollar at 10 cents when cotton goes to 15 cents? How much rise in the price of that shirt would it cause? It might be thought at first flash that it would make it worth $1.50, but the price of the raw material has only increased 5 cents a pound, and if there is a pound

in the shirt the shirt that sold for $1 when cotton was at 10 cents a pound would sell for $1.05 when cotton was 15 cents a pound. It only adds 5 cents to the value of the pound. It does not take one bit longer to spin it or one bit longer to sell it or one bit more labor to manufacture it into a shirt, and the difference in the price of the raw material will only affect the value of it to the very extent of the rise in the price of the raw material.

Mr. COLE. What is the practical effect of that? Will not the price of that shirt on the market be greatly increased above 5 cents?

Mr. BROOKS. It will not necessarily so.

Mr. COLE. Not necessarily so, unless somebody wants to add more profit than he has been getting. Is it not a fact that they take advantage of that to about double the price of the shirt?

Mr. BROOKS. People take advantage of almost everything they can make money out of; but that does not at all change the facts as I have stated them.

Mr. RUCKER. I think there is no question about that being true, though; we have seen that done in certain tariff matters.

Mr. COLE. Yes; they lower the tariff and increase the price of the article.

Mr. BROOKS. Mr. Chairman, I make the point of order that we are not discussing the tariff.

The CHAIRMAN. I think the point is well taken.

Mr. BROOKS. The consumers of the world, taking the approximate figures, which of course is all that anybody can get—the consumers of cotton goods throughout the world, pay as much every year for the finished products of cotton as there is of every kind of money in the United States to-day. Take all of our different kinds of money, and the amount of money paid for the finished products of cotton goods every year in the world equals that. So that a rise of price is not levying a tax merely upon the consumers of the United States, but on the entire inhabitable globe.

Mr. Chairman, let us come to some of what we consider to be evidences of the positive evils of the future-dealing business. In the first place, it gives instability of price. It is sometimes claimed that it acts as a balance wheel to prices, tends to hold them level, that it is the governor of prices; but we think that it has the opposite effect, that it tends to cause prices to fluctuate, that it tends to destroy stability of prices. In the first place, it could not be otherwise from the simple fact that it would not exist without fluctuation. Does anybody suppose that anyone would ever buy or sell a future if they absolutely, positively knew that the price would always remain exactly the same thing? Why, of course they would not. They deal in futures because they know that the price is going to fluctuate. Well, then, the exchange would not so much as exist if it was not for fluctuations. Do you suppose that an institution would allow fluctuations to cease when it meant the destruction of that institution itself if it was in the power of that institution to cause fluctuations? All of the ninety-odd per cent of the transactions through exchanges that do not carry with them the delivery of actual commodities and serve that function in the channels of trade are brought about by the certainty that there will be fluctuation in the market. For every winner there must be a loser, and the disposition of the human family to take risks in games of chance is so strong that it is a temptation

hard to resist, and in any community there are always those who are willing to risk a loss if there is even a semblance of a chance to gain. There seems to be a fascination about all games of chance, and as other avenues of satisfying this desire or inclination are shut off by law, the exchanges furnish the greatest means and greatest temptation for people to risk their money; nay, they furnish a greater temptation than all others combined. More millions of money are spent in this manner every year than in all other species of betting in the entire country. Does it stand to reason that an institution that means millions of dollars in profit to those who control it would allow the very means by which it exists to cease to exist? If it can be demonstrated that they have this power, that is positive proof that natural fluctuations are aggravated by the exchanges.

Before I go into the evidence to show that they not only have the power but exercise it, I will call attention to what may be brought out on the other side of the question that the prices of cotton fluctuated to very extreme points up and down before there was an exchange. Mr. Chairman, that does not necessarily prove that the exchanges have in any way tended to minimize these fluctuations. Conditions were so different before the exchange was established that hindrances to communication and inability to transport from the interior points to the great marts of trade would result in variations in price which would not occur now under the operation of supply and demand alone. We did not have railroads; we did not have telegraphs; we did not have telephones; we did not have the mail facilities in the years preceding the establishment of the exchange as we have to-day. There were disturbances in the financial world, in the industrial world, and disturbances by nature that caused variations to take place, perhaps reaching as extreme points as they reach now, but we have no right to complain of the rise and fall of values when those results come from natural causes. The fluctuations in price now are of a different nature. They are more sudden, more acute, and more in the nature of a tremor or a quiver, or a constant nervousness, than they were before the exchange came into vogue. You take the maps and diagrams shown by Mr. Herbert Knox Smith in his reports and they remind one of a picture of zigzag lightning. The sudden vibrations in the fluctuations of price on the exchange as marked on the diagrams show that there is a continual uncertainty that can not come from a natural cause. It can be attributed to absolutely no cause except the exchange from whence these quotations come. We may take a sample—and it does not matter what date, whether it be this year, last year, or ten years ago—and show that it can not be maintained that exchanges have a tendency to steady the market.

The Wall Street Journal of January 25 is authority for the statement that during the first twenty-five days of last month there was a decline affecting $560,000,000 worth of wealth of about 15 per cent, equaling $84,000,000, nearly all of which occurred in two weeks; a shrinkage of $7,036,000. Now, the question is, What caused it? Mr. Chairman, I read from the New York Commercial of this morning. It opens up with the sentence, on page 5, on the cotton question:

Prices went off yesterday under well-organized bear operation.

That is not the law of supply and demand. Down further it says:

May, which had closed Tuesday at 15.05 and opened at a decline of 15 points, was down to 14.71 before 11.30 o'clock, a total drop of 34 points.

At the top of the third column I find:

Spots in New York, 20 points decline. Liverpool, 7 points decline.

A little further down I see this comment:

New Orleans was closed yesterday. Many queer things are done in the dark.

I will not try to interpret what he means. The next sentence I see is:

On to Washington! Forward, march!

There must be something doing here. But let us go back to the evidences that the exchange itself causes prices to fluctuate. In the same paper for February 8 I read:

The large sales of spots in Liverpool was an additional stimulant for the bulls, but their efforts met some check when Wall street houses came to the front with profit-taking sales. One big block of the May option was reported as closing out purchases made at 13½ cents. The selling sent prices back 5 to 7 points, continuing for half an hour or more.

Farther along in the same column I find this:

May worked back and forth about the 15-cent quotation throughout the noon hour and for the early afternoon. It was a scalping market for the time, with all that the words imply.

What does a "scalping market" mean? Is that normal? Is that business based upon equity, justice, and the golden rule? In the same column, farther on, it says:

Local houses catering to out-of-town buyers reported business more active than in years. Excursions to New York for buyers exclusively have been breaking all records in point of numbers of late.

That means that the suckers are not all dead. Farther down on the same column I read:

Should further advances be recorded, there is a probability of readjustment talk in dry goods and yarn circles. As it is, many lines continue to refuse quotations for more than a few weeks ahead.

Which shows that it has an effect on the price of cotton goods. Now, Mr. Chairman, we will go back a little farther. Does the process of future dealing have a tendency to prevent fluctuations? That is the question we are now discussing. In February, 1904, the July option in New York sold as high as 17.55. Before the month was out the July option sold as low as 13.02, over $20 fluctuation in that month, of one hundred and fifty days ahead. Now, did the spots tally with these futures when July finally arrived?

Mr. Beall. Twenty dollars a bale, that is?

Mr. Brooks. Twenty dollars a bale.

Mr. Beall. Some of the members of the committee are not familiar with the phraseology of this subject.

Mr. Brooks. Did the spots tally with these futures when July finally arrived? No. The July opened by selling as low as 10.18. From 17.55 in February there was a decline to 10.18 the first week in July. How is that for holding prices stable and putting a balance wheel on prices by the exchange? It often happens that a bale of cotton varies in value as quoted by the exchanges as much as $5 a bale in one or two days. There have been instances where it was worse. As to whether or not the exchanges are responsible for these violent fluctuations, I will read the closing remarks of Mr. W. B.

Thompson, president of the New Orleans Cotton Exchange, in a published letter of his September 16, 1907:

But we do not believe that the prices are natural or legitimate. The brief experience we have had with the market this season before speculation interfered showed that consumers were willing to pay the prevailing prices and producers were willing to accept them. If business had been permitted to run its natural course probably the increased volume of receipts would have gradually lowered prices. This would have been a natural and acceptable result. But when an outside element, that knows nothing about cotton and has no interest therein except as a medium for gambling profits, arbitrarily interferes between the producer and consumer and undertakes to fix prices by sheer force of money and manipulation, we believe in suspending the rules and striking with the weapon at hand. The producer has the weapon.

That is the president of one of the largest exchanges testifying to the fact that the exchanges do cause fluctuations in price.

It matters not whether these exchanges influence prices up or down, the evil done to the public is just as much to be condemned, whether it injures the consumer or the producer. If it is an artificial barrier or agency or institution whose work brings about an unstable market, it is a menace to the business of the world and we have no choice to take, whether in the long run it injures the producer or the consumer the more. As further testimony upon the point under consideration, I wish to refer you to a government document of the Fifty-third Congress. It is testimony taken by a commission appointed for the purpose of investigating the cause of decline in farm products, and this committee had hearings at the main centers of cotton trading in 1893. I wish to refer you to page 20 of this report and to the testimony of Mr. Jerome Hill, of St. Louis. One paragraph from his testimony reads as follows:

I attribute the low values in part to disarranged financial affairs in the Old World, for part of the time to unlooked-for strikes in Lancashire, and to the illegitimate methods that have become prevalent at the two great export markets, New York and New Orleans, in dealing in contracts on futures.

Mr. Chairman, I refer also to the testimony of Mr. D. C. Ball, on page 34 of this same document. Mr. Ball testified that he was a cotton factor and had been in the business about fourteen years and lived in St. Louis. Here is a paragraph from his testimony:

In a general way my opinion, which is the same as that of the public at large, is that one man or combination of men can, in the face of a general opinion and in the face of the existing facts upon which that opinion is based, either by securing control of all the available cotton that can be used in contracts and then by continuing to bid heavily for future deliveries of cotton, run up the price to an unwarranted extent, or else by offering unlimited quantities of cotton equally depress the price. But these unnatural conditions must eventually correct themselves. The evil of futures lies in the ability of a combination of men being able to accomplish this under existing conditions, as in the interval the actual handling of cotton must continue and is so enormously affected either way thereby. If it is depressed the producer suffers, if it is unduly increased the spinner suffers. In either case the natural course of trade is interfered with, and it is an evil.

Mr. Chairman, I will call your attention next to the testimony given to this same commission by Silas Wade Hampton, of Memphis, Tenn., who testified that he was 55 years old; had resided in Memphis thirteen years; went into the cotton business immediately after the war, at St. Louis first. After one year in St. Louis he went to Cincinnati and then established and carried on a cotton factorage business for fourteen years. From there he removed to Memphis and continued the same business, and for twenty-five years had been in the legitimate cotton factorage business.

I read this testimony because it is from men who ought to know, and it might have more weight than merely to explain or testify to these things ourselves. Beginning at the bottom of page 56, Mr. Hampton used the following language before this commission:

There are many of them connected with banks or are themselves bank officers. Take the house of Latham Alexander & Co., for example; they publish themselves throughout the South, as you know, as dealers in futures, cotton commission merchants, and bankers. Now, these firms with financial backing almost unlimited—I mean the clique there, the cotton ring, one firm can not do it—hold themselves prepared to buy or sell any quantity of futures that may be offered or asked for on either side by outsiders, just exactly as a dealer of faro would sit behind his table and the bettors may come up and choose their bets any way they please. These influential firms, being themselves the buyers or sellers of these future contracts, have this great advantage, that they control the machinery of the exchange where the quotations originate; their influence determines the election of its officers, the adoption of its rules, and they have the system of making and deciding quotations absolutely under their control. There is no one else who has any control or voice in it but members of that exchange. The members of this powerful syndicate have their representatives on the floor to do their buying and selling. They do not themselves often appear on the floor for this purpose, but employ brokers, so that no one else may know too much of their operations. A certain amount of secrecy is necessary, I imagine, to the full success of such business as this.

Beginning at the bottom of page 60 this same gentleman uses the following language:

In one week they turned on the screws and broke it down 1 cent a pound without one change in the material conditions of the trade, not one atom of change, nothing except the power of that ring to do it, broke it head over heels. Even after the break of a cent a pound there were these conditions prevailing; we knew the crop was short one-third, knew the demand was free, and with that condition of things we ought to have at least 10 cents for cotton; the consumption was equaling the product right straight along, and our people believed in 10 cents for cotton, believed that it would react, and went in and bought more, and the more they put up the more New York broke prices, until it got below 8 cents again. It reacted after New York had squeezed them all out. Why did they hold it down? Because these men in the South would continue to hold and put up margins. Some had $8 and $10 per bale margins up, because they believed it was then at the bottom and bound to react, and the more they put up the more New York squeezed them to exhaustion. This is the game they played. Now you can see that with that combination they have there in New York—right there to consult with each other every day and hour if necessary—controlling as they do the rules and regulations of the cotton exchange, having a system which they have been twenty years perfecting, having it all under their grip and ready to act together at any hour, and through their immense money power, in any direction they please, and on the other side nothing but a mass of people all over the country without any combination or consultation, just an unorganized mass, you can see how absolutely helpless one side is. That was last year. The point I want to make is this, that if the crop was one-third short, and though consumption was going on freely, and though the goods were holding up well, still with it all they drove the market price down as low as when they had a 9,000,000-bale crop. There was not a cotton man of any intelligence in this city that, when cotton went to 10 cents in December one year ago—that speculative fever was at its height this time last year and stayed up until New York got ready to put on the clamp—that did not want to back the market then. You had the antioption bill in the Senate and they tried to hold off that break for fear that a sudden manipulative break would pass the bill. I saw it; but the margins were so big and the speculative fever just ran away with them, so that they just had to make the break, and then the temptation to capture the immense margins was too great. They said the antioption bill did it.

On page 62 Mr. Hampton continues:

Now these instances that I have given have come under my own observation as a cotton merchant. They have convinced me beyond all further doubt that the cotton market is absolutely under the control of the "future" men of New York. The machinery they have there enables them to put it up or down according to their interests, and they do it. It brings them in millions, untold millions. When you remem-

ber that they handle 50,000,000 bales of these futures, that the crop is only 6,500,000 bales, and the decline or advance on a bale of these futures is just as much as it is on a bale of real cotton, you can see what a preponderating influence that future business has grown to be.

The committee will note that this testimony was given in 1893, and that they then handled 50,000,000 bales a year futures. Does anyone suppose that the present estimate of 100,000,000 bales is an exaggeration? At that time they published the amount of business that they carried on, but since the agitation that was then in Congress they have ceased to publish the amount of transactions recorded in either the New Orleans or New York exchanges. This is for the purpose of keeping the public from knowing how much graft there is in the business. They charge $15 per 100 bales to those who are not members of the exchange in commissions for carrying on this business—$7.50 to get in and $7.50 to get out. They charge $7.50 per 100 bales to their members for this same work. If we take 100,000,000 futures and put it at the lowest possible estimate, the commissions that they collect yearly must amount to something like $10,000,000.

But in order to refute this charge they claim that not all of the sales made upon the exchange are bona fide transactions yielding these regular commissions. There are what is called "match sales," and "wash sales" and a process that is termed "wringing out," all of which yield no commissions except what is paid the broker on the floor as his wage for his services. This position that they assume is a confession of a still more objectionable feature to the exchange operations than the mere collection of commissions. I refer you, Mr. Chairman, to the gentleman last quoted, page 62 of the same document, as a man who knew full well the business of which he spoke, for a description or statement of how these wash sales are carried on. Senator George, a member of that commission, asked Mr. Hampton a question:

A "wash sale" is where there is a bid between the parties, a collusive bid that does not mean anything—no contract?

Answer:

That is what it means. Those men get together that way. There are not more than a dozen or 20 of those leading houses there who sell the world all the futures they want, buy all the world has to sell, and control the market. These men find out on a certain day they have got 1,000,000 bales sold more than they have got bought. In other words, they are oversold that much, and if they can make a decline on that of a cent a pound it would be $5,000,000 gain. Now, they just put their heads together and agree that to-morrow they will break the market one-quarter cent, say. There are a dozen of them or fifteen. It is like this: To sell 200,000 bales of futures to break the market I will get three or four of my brokers to go in on the floor and sell for me ten thousand of those futures 5 points down on each lot, 2,000 at a time. All the rest do the same. Then I get another lot of brokers and instruct them to go on the floor and buy my ten thousand as offered at these prices. The two sets of brokers do not know anything about it. They do not know but what it is a perfectly legitimate transaction, and they have got their limits to offer and buy on. They go in and make those trades, and the quotations are thus marked one-quarter cent a day—that is 25 points. Then these brokers come to me, report what they have bought or sold, ten thousand bales, some from one of the ring, some from another, and not a nickel has passed but what I pay the broker for doing it. That is a "wash sale." The decline is then telegraphed over the whole world.

On page 63 of the same document I wish to quote one more paragraph from the same witness:

The most culpable details of this future system are kept as nearly secret as they can be. Especially it has been the case since Congress has undertaken to investigate

the matter. They used to talk with a great deal more freedom than they do now. These future men, in defending their business, have said that Liverpool dominated the cotton market, that she fixed prices, and I have heard that stated by very intelligent business men, southern men. Now, the law of trade on this point is just this: Wherever the demand is greatest and the supply is lowest, there the best prices should prevail. Where the demand is lowest and the supply greatest, there the lowest prices should prevail. In this way the law of supply and demand works. This one market may control prices at one time, another at another time. If Liverpool happened to be well stocked with cotton and we were offering another crop to her, and she did not need to take our cotton, she would control; but as a general thing the owner of any property controls the price of that property. That is also the law of trade. No man can put his price on my property; I have got to say what it shall be. If, however, I am in a close corner, have got more of a thing than I want and no money, and am bound to sell it, and if the buyer is not pressed and is free to take his time, probably he can have more to say in the price of my property than I can. But there is this about the Liverpool cotton market: I have known again and again in the past year or two, on our cotton exchange, when Liverpool reported cotton firm and strong and higher, the very next morning New York would come in with a decline of 10, 15, or 20 points, and knock it all out, and, of course, as the United States has the cotton and Liverpool wants to buy it, if we are willing to sell it to her for less than she is willing to pay, she is not going to hold it up. After Liverpool had shown a disposition to give an advance, New York knocked it all out; and it has been done when New York was oversold on futures and was unwilling to have cotton advance. It would have cost her too much. Thus futures overturned the law of supply and demand, and New York controls.

One more sentence, Mr. Chairman, from this witness, and we will pass on. Page 68 he says:

The whole object of this future system is for the benefit of the man who controls it. That is the only reason why it exists, and it has proven a benefit to them of countless millions, which have been drawn from the producers of this country unjustly, and, I might say, dishonestly.

Mr. Chairman, I would call your attention to page 9 of the report from which I have been reading and to an introductory statement by the commission on these hearings printed with the evidence. The report says:

But it is also shown very conclusively that the actual deliveries as they are claimed to be are in fact fictitious. It is shown that a certain number of bales are classed, weighed, and certificated, and deposited in the warehouse. Each certificate is for 100 bales and is a legal tender for delivery under one of these contracts. It is negotiable and passes around from hand to hand as other negotiable paper. It is tendered and accepted on an average at least thirty times before it rests. In this way, it is claimed, 3,000 bales are delivered through one certificate; yet in all these various transactions not a bale of cotton is seen or actually passes from one man to another.

Now, Mr. Chairman, passing from these witnesses that appeared before that commission and their testimony, in which I think they have thrown some light upon some transactions of the exchange, and without recapitulating, we will go on.

Mr. HAUGEN. Are we to understand now that the fluctuation of prices is wholly due to the boards of trade and to speculation in futures?

Mr. BROOKS. Not wholly.

Mr. HAUGEN. Largely so?

Mr. BROOKS. Largely so.

Mr. HAUGEN. How does the gentleman account for the fact that the prices of cattle, for instance, will fluctuate in a single day, say, 50 cents a hundred, which is more than the number of points of fluctuation of cotton referred to. Seventy-five cents a hundred on a steer would amount to $12 or $15 a head. The fluctuation would seem to be quite as great in cattle as in cotton.

Mr. BROOKS. Do you suppose that an exchange on cattle would prevent them from fluctuating?

Mr. HAUGEN. What?

Mr. BROOKS. Would an exchange on cattle prevent those fluctuations in the price of cattle?

Mr. HAUGEN. No.

Mr. BROOKS. If they do not prevent fluctuations, but aggravate them, where is the good of them?

Mr. HAUGEN. I understood you to say that the fluctuations were due to speculation.

Mr. BROOKS. There was fluctuation before there was an exchange, and there would be some changes in values after the future-dealing features of the exchange were abolished; but they aggravate the fluctuations and cause this continuous tremor in the prices for the purpose of keeping people investing in futures and handling the immense amount of business through the exchange, for which they get an advantage in the rise and fall by understanding what is going to be done, and getting the commissions.

Mr. HAUGEN. Does the gentleman claim that if the exchanges were abolished it would stop fluctuation?

Mr. BROOKS. It would not, because prices naturally go up or down; but the fluctuations would then be based on the law of supply and demand, against which no man has a right to complain. These are abnormal fluctuations of the exchange, and we are opposed to them.

Mr. HAUGEN. Is it possible for a number of men with capital to manipulate prices by combinations and monopolies? For instance, at the present time it is very well understood that there is an understanding between the packers in Chicago and other places that the railroad companies shall not furnish cars to the shippers, and as a consequence the cattle on the farms and in the yards can not get cars, thus enabling the packers to put prices up, as has been done.

Mr. BROOKS. It takes more capital to cause a fluctuation in price by investing in the entire value of your product than it does to affect the price of it by future dealings, but where persons have absolute control of the commodity, perhaps they can raise or lower the price as much as the exchange can on an article that it does not own.

Mr. BEALL. The gentleman has just said that the fluctuation of the cattle market is due to some artificial cause; that it is not caused by the law of supply and demand.

Mr. BROOKS. The cause of the fluctuation to which the gentleman referred would come under a different head.

Mr. BEALL. It is an unnatural one?

Mr. BROOKS. Yes.

Mr. HAUGEN. It makes no difference whether it is a trust or a board of trade; the board of trade itself is a trust, so far as controlling the price is concerned.

Mr. BROOKS. If we demonstrate or prove or satisfy your minds that the exchanges do affect prices, that is what we are trying to prove, and we are repeating testimony here to that effect given by men who have a chance to know; and as to whether some other influence or trust affects the price of some other commodity or not would come under a different discussion.

It is hardly necessary, I suppose, for me to go into an extended discussion, but I will call attention to one feature of the methods of the

exchange, to illustrate how the exchanges handle cotton. I will state some statistics of reports of cotton at the leading ports, where these exchanges are located. Take the year 1907. During this year New York received 23,108 bales, and had on hand at the end of the season 169,975 bales. The receipts for the three preceding years were in the aggregate less than 65,000 bales. During this same year New Orleans received 2,296,971 bales, and had on hand at the end of the season, 31,964 bales. During this year Galveston received 3,891,695 bales, and had on hand at the end of the season, 30,820 bales. This shows that at New York they had a great deal more on hand at the end of the season than they had received during the year, and it has been charged without successful refutation, time and again, by those who are in a position to know, that a great deal of this cotton is absolutely unspinnable, it is of grades that no manufacturer could use, and even were some of it other grades, that they could use, the seller, in order to keep from delivering cotton, could tender other grades above or below those required by the manufacturer who had bought for future delivery, thereby ruining New York as a spot-cotton market.

In order to keep from delivering cotton they have to adopt this plan, because if they had to deliver every time according to contract it would have to be a spot market; and as they can not make it a spot market in competition with other points and ports, these rules are adopted of delivering cotton that is not wanted. If I should advertise that I had 20,000 bushels of peas to sell at 80 cents a bushel when peas were $1 a bushel, I would doubtless get the orders; but if the rules allowed me, when I went to deliver, to deliver rotten peas, I would soon cease to be patronized; and that is the way the cotton-exchange business is run now. The rules of the cotton exchange of New York allow that sort of thing. I am not discussing this from the standpoint of the consumers or manufacturers or farmers, but from the standpoint of all, and those who are in the manufacturing business, some of them, have expressed themselves just as firmly on the side that it is not necessary for their business as any farmer could. Even Mr. McColl, ex-president of the New England Manufacturers' Association, testified before this committee of the previous Congress that thousands and thousands of spinners did not hedge at all. I heard Mr. Coats, who controls 6,000,000 spindles, before the International Congress of Spinners and Cotton Growers, in October, 1907, say that 97 per cent of it was evil, and that if that could not be eliminated you had better destroy the whole. As a rule, it is claimed that investors in futures are from the cotton belt. This throws the manipulators of the exchanges on the bear side as a natural consequence, so that the professionals must load down the market until the bulls are frozen out and the margins are captured.

Then the professionals are bulls and take in the sale as fast as offered till the boom is over, and get the advantage of the rise, but take care to stop before it gets to the top and unload again. The exporter who is using the exchange to cover his sales, who hedges as a so-called protection, may hold his futures till after delivery of cotton, if the price of futures and spots are going up; but if the price of both spots and futures are on the decline, he may sell his futures before the spot cotton is delivered which he has contracted to deliver to the spinner.

Now, Mr. Chairman, let us consider again the point of the influence of futures on spots. In the first place, if futures do not affect spots they are useless, and if futures do affect spots they are a nuisance. The trouble is that no one can be helped in the influence that futures may have upon prices without a corresponding injury to another person, and vice versa. The fact that futures do affect spots is brought out so clearly and absolutely conclusive by the report of Mr. Herbert Knox Smith, Commissioner of the Bureau of Corporations, in his investigations of the exchanges, we think this can not be disputed. Numerous charts are given in his report bearing upon this point, and invariably they demonstrate that spot prices follow future quotations. By referring to diagram on page 39 of his report, as an example, we see this demonstrated.

If spot prices follow future prices up and down, that surely is evidence sufficient that futures do affect spot prices, and this then shows absolutely conclusive that the producer and the consumer are dependent for the price they get, or the price they pay upon the exchanges, who handle but very little cotton comparatively, but hundreds of millions of dollars' worth of fictitious sales made for no other purpose than to rake in the margins placed by investors on cotton futures. Why should the actual value, the commercial value, of a commodity that is an absolute necessity to more people than any other product grown from the soil be dependent upon such uncertain, unreliable, and unsteady source of influence?

Mr. Chairman, the cotton States have to a great extent legislated to the full extent that they had the power to do so against future dealings. Bucket shops have been legislated out of nearly all the cotton States, and we were told that numerous calamities would follow in case that was done, and I have a compilation here that I will hand in, and will not take the time to read it, of the daily spot prices in Galveston and New Orleans. There have been no laws passed against future dealings, as I understand, in Louisiana, while there have been such laws passed in Texas. These are two neighboring ports with identically the same conditions surrounding them, and there is very seldom an exception to the rule that the prices since the passage of that law are higher in Galveston than they are in New Orleans.

(The lists referred to are here printed in the record in full, as follows:)

New Orleans Cotton Exchange Market.

Date.	New Orleans.	Galveston.
1909.		
February 20	$9\frac{7}{16}$	$9\frac{9}{16}$
February 27	$9\frac{5}{16}$	$9\frac{7}{16}$
March 2	$9\frac{1}{2}$	(a)
March 6	$9\frac{1}{2}$	$9\frac{9}{16}$
March 12	$9\frac{7}{16}$	$9\frac{9}{16}$
March 20	$9\frac{1}{2}$	$9\frac{5}{8}$
March 27	$9\frac{9}{16}$	$9\frac{5}{8}$
April 2	$9\frac{9}{16}$	$9\frac{11}{16}$
April 12	$9\frac{7}{8}$	$10\frac{1}{16}$
April 17	$10\frac{5}{16}$	$10\frac{5}{16}$
April 24	$10\frac{3}{16}$	$10\frac{1}{4}$
May 1	$10\frac{1}{4}$	$10\frac{3}{8}$
May 3	$10\frac{3}{16}$	$10\frac{3}{8}$

a Holiday.

New Orleans Cotton Exchange Market—Continued.

Date.	New Orleans.	Galveston.
1910.		
January 3	15$\frac{3}{8}$	15$\frac{3}{8}$
January 15	15 •	15
January 17	15	15
January 22	15	15
1909.		
May 1	10$\frac{1}{4}$	10$\frac{3}{8}$
May 2	10$\frac{1}{4}$	10$\frac{3}{8}$
May 4	10$\frac{1}{4}$	10$\frac{3}{8}$
May 6	10$\frac{5}{16}$	10$\frac{3}{8}$
May 8	10$\frac{5}{16}$	10$\frac{3}{8}$
May 7	10$\frac{5}{16}$	10$\frac{3}{8}$
May 9	10$\frac{5}{16}$	10$\frac{3}{8}$
May 14	10$\frac{3}{8}$	10$\frac{7}{16}$
August 12	12$\frac{3}{8}$	12$\frac{3}{8}$

By the way, it is not often that the exchange advocates are opposed to the abolition of bucket shops. The fellow who wants to patronize the bucket-shop man goes there, and he and the bucket-shop man have it up and down on the fluctuation of the prices, between themselves, but that does not influence the market. He keeps the money from going to the exchange, and when the man that wants to gamble must go to the exchange it throws that custom to the exchange to have the bucket shop knocked out.

The question is sometimes raised, as it was raised a while ago about stock, that perishable products like truck-farm products fluctuate very much, and therefore the fact that cotton fluctuates is no sign that exchanges have anything to do with it. There is a great deal of difference between the fluctuation of a very perishable product like vegetables, peas, cabbage, and things like that, which have to be marketed during a certain season and used then or not at all, and the fluctuations that should occur, under a natural operation of the law of supply and demand, in a product like cotton. For instance, cotton is used by more people, more different individuals of the human race, than any other one product, perhaps. The whole world is a customer to the cotton raiser, and the product is nonperishable in quality; it can be kept for ten years without material deterioration, and it will stand more rough handling than almost any other farm product, and it should be more stable in value than any of the other products of the soil, and for that reason there is no comparison between what ought to occur in the natural market in the way of fluctuations of cotton and of vegetables.

Mr. Chairman, under the shadow of these exchanges and their methods there has grown up a condition in the South, both in the tobacco and in the cotton belts, that is very unfortunate to the farmer. Competition among buyers is practically eliminated. The territory is divided between the large cotton handlers, and there are more or less well-defined limits beyond which buyers are not to go. For instance, you may go to Memphis and want a certain buyer to go out to a certain warehouse in Mississippi and buy a certain lot of cotton, and he will tell you that that is not his territory, but that Mr. So-and-so will accommodate you. There is no law by which any man is prevented from going anywhere he pleases and buying any quantity

of cotton he pleases, but there has grown up this tacit understanding between the buyers, and it is in vogue in the South, and the competition that is supposed to be encouraged, according to the arguments of the gentlemen on the other side, is simply a nonentity. There is nothing to it. We know for a fact, having lived and grown up in the cotton belt, that the territory is divided, and that competition among local buyers is a farce. Sometimes we have in one town two or three buyers, if there is a considerable amount of cotton sold there, and often two or three of these buyers will be representing the same man, and they go and buy against each other just for the sake of the effect on the mind of the farmer.

Mr. Chairman, you will be asked to believe, perhaps, or they will attempt to impress upon you, that these local buyers and these heavy cotton merchants are the ones that offer a market for the farmer; that without them there would be no market and that the farmer would be absolutely helpless; that there would be no one to whom he could sell if it was not for them. It does not matter how important they are; it is not a question of our having him for a buyer; we have no animosity whatever to the buyer. When Edison invented the electric light he was not mad at the manufacturers of candles or gas or the producers of coal oil; he simply added another method of doing the same thing more economically and satisfactorily. And in this case, if this bill should become a law, and someone is actually eliminated from the business in which he is engaged, that is merely an incident with which we are not concerned. The man who invented the steam engine put the manufacturer of the stage coach out of business, not because he was mad at him but because the evolution of business simply brought that about. We want to say that the local buyer does not furnish a market for the cotton farmer; the wholesale heavy cotton merchant and exporter does not furnish a market; the spinner does not furnish a market; the jobber that buys from the spinner does not furnish a market; the wholesale men that buy from the jobbers do not furnish a market; the merchants of the world do not furnish the market. Then who does? There is but one answer, the 1,500,000,000 citizens of this earth who consume cotton goods furnish all the market that there is to it, and they will continue to wear cotton goods and buy cotton goods regardless of whether anybody deals in futures or not, and that market will be constant as long as the human race wants that article.

Every man is a consumer, and he only furnishes a market to the producer to the extent that he consumes what the producer makes. His occupation does not furnish the market; it is the consumption of the article that furnishes it. But there will be just as much demand, whether you pass this law or do not, upon the part of the consumers for the finished products as there has been, and if they go and buy from the retail merchant, the retail merchant will send his orders to the wholesaler and the wholesaler to the jobber and the jobber to the mills, and the mills are there with their property invested and the hands employed, and they are not going to sit down and quit business because somebody can not gamble on prices; they are going to go to the sources of supply and get their cotton, and the farmers are willing to take the consequences of your prohibiting gambling in prices; we are willing to take the consequences. We are willing to risk the results, and we want it. There are 29 States now organized, and there

never has been, so far as I have heard, one single dissenting voice raised against the demand for this legislation.

Mr. Chairman, we have no doubt but that the gentlemen who are engaged in this future-dealing business are not different from the rest of us by nature. No doubt they are conscientious in their views of business. We have no abuse for anybody. People are the creatures of circumstances and environment. But the fact that a man believes his business is necessary and legitimate does not decide the question. The feudal baron thought he was necessary to his people. He was conscientious in it, perhaps, although he might collect 80 per cent of the fruits of toil and squander it on his army that he might hold his sway. Nevertheless, there came a time when some one hinted that it would be best for the human race to dethrone power from the castle on the hill and place sovereignty by the fireside of the cabin in the valley. Those men who advocated this change were considered political traitors; they were heretics in political economy; but it was done. And this nation is a flagrant example of the result. But for that change there would be no American Republic. Even the slaveowner was conscientious in thinking that his institution was all right, and he proved his loyalty to his faith when the test came; but slavery is gone. Once upon a time there were those who manufactured gods and shrines in the city of Ephesus and furnished them for a price for the people to worship, and they had built one particularly magnificent temple and within that they had placed the Goddess Diana. But one day there came a man to Ephesus preaching the gospel of a God not made with hands, and he began to get converts, and the makers of those gods and shrines became jealous because of the job that was in danger of being taken away from them, and the devotees of the goddess had mobs go up and down the streets of Ephesus crying out "Great is Diana of the Ephesians!" But the change came. We are asking for a law. We are asking for the abolition of a certain business carried on at certain places. We are sincere in it. We hope that nothing but the purest patriotism and principle actuates us in coming here. It is so arranged in the immutable infinite that when a man works for principle he works for mankind; he can not help it. We believe there is a principle involved in this, and that the men who work for it are working for the American people; and without holding you longer, and thanking you very kindly, I will now, if you want to ask questions, open the question box.

The CHAIRMAN. The time has come for the committee to take a recess, and I believe I will ask the members who might wish to question Mr. Brooks to withhold their examination until after the adjournment.

(At 12.45 o'clock p. m. the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

At the expiration of the recess the committee resumed its session, Hon. Charles F. Scott in the chair.

The CHAIRMAN. At the morning session Mr. Brooks finished his statement in chief, but the committee adjourned before any questions were asked him. Mr. Brooks will remain here, I understand, and will

be glad to submit to any questions at a later hour. But for the present he has yielded to any Lewis W. Parker, of Greenville, S. C., who would like to be heard now for the reason that be is obliged to leave town this afternoon.

TESTIMONY OF MR. LEWIS W. PARKER, OF GREENVILLE, S. C.

(Mr. Parker was duly sworn by the chairman.)

The CHAIRMAN. Mr. Parker, will you state your full name, residence, and business, and then proceed with whatever statement you wish to make?

Mr. PARKER. My name is Lewis W. Parker. My address is Greenville, S. C. My business is cotton manufacturing.

Mr. Chairman, I understand that this morning a rule or suggestion was made that you would not interrupt the speaker. I wish to say that I really would prefer interruptions if any member of the committee desires to ask questions in the progress of what I shall say. It will not disconcert me a particle. And if my friends of the cotton exchanges—whose position I may somewhat combat—desire the same privilege in the midst of my remarks I have no objection, if it meets with the approval of the chair.

The CHAIRMAN. Such an arrangement will be entirely satisfactory to the committee, I am sure. I think, perhaps, in the interest of orderly procedure, it might be better for the members of the committee to examine the witness until they have asked all the questions they desire to; and then any other gentlemen who desire to question him will be given that privilege.

Mr. LEVER. Mr. Chairman, before Mr. Parker begins his statement I should like him to introduce himself a little more fully to the committee. In order to have that done I will ask him what mills he is connected with, and the spindles represented, and if he holds any official position with reference to the cotton manufacturing business of the South?

Mr. PARKER. I am the managing officer—president and treasurer, one or both—of 8 mills, viz, the Olympia cotton mills, Columbia, S. C.; the Granby cotton mills, Columbia, S. C.; the Richland cotton mills, Columbia, S. C.; the Capital City mills, Columbia, S. C.; the Monoghan mills, Greenville, S. C.; the Victor Manufacturing Company, Greers, S. C.; the Apalachee mills, Arlington, S. C.; and the Beaver Dam mills, Edgefield, S. C. Those are eight mills of which, as I say, I am either president or treasurer, or both; and I am director in quite a number of others. I am at this time president of the American Cotton Manufacturers' Association. Personally I represent and control about 350,000 spindles.

The CHAIRMAN. How long have you been in the cotton manufacturing business?

Mr. PARKER. I have been in the cotton manufacturing business thirteen years. I am a reformed lawyer, sir. [Laughter.] I am by profession a lawyer, but I have seen the error of my ways.

Mr. LEVER. Is there any other man in the South who controls as many spindles as you do?

Mr. PARKER. No, sir; I think I control more spindles in the South than any other person. I wish to have it understood, though, that I do not appear in my capacity as president of the American Cotton

Manufacturers' Association. While I believe that what I will say will meet with the approval of a large proportion of the members of the association, I have no authority as president to appear before you. I am here in my individual capacity as a citizen and as a manufacturer.

I wish also to make it clear that I have no fight against exchanges. I believe that a cotton exchange (like exchanges in other characters of produce) legitimately and fairly conducted, with rules which make the future contracts responsive to the stock conditions, can be of service at times not only to the producer but to the manufacturer. I do believe that with the exchanges of this country conducted as they are to-day, they are a positive menace and a curse to both the manufacturer and the producer. And feeling that way, I have responded to the suggestion or invitation of Representative Lever (who is the Representative, not of my home district, but of the district in which some of my mills are) to appear here.

I might introduce what I have to say by reading part of the report made by a committee of the American Cotton Manufacturers' Association at its May meeting, 1908, when we took up this question (as we had in previous meetings) of the cotton exchanges, and their effect upon us as manufacturers. I can not emphasize too greatly to the committee the very serious effect that the exchange has had in times past, and is having to-day, upon the manufacturers. We are left in a condition where we are "damned if we do and damned if we don't." The effect of the exchanges upon the product in which I am interested—cotton—is such that it is simply impossible for a manufacturer with any assurance whatever to know the price at which he is going to buy his raw material.

To illustrate to you, take the conditions of the last month: Within the last thirty days cotton futures were quoted on the New York Cotton Exchange at approximately 16½ cents, that representing about the high-water mark. Those same contracts during that month have fallen slightly over 3 cents a pound, or about 3¼ cents, I believe, as the minimum. During that period the price of spots has remained practically unchanged. The producer who was able to hold his spots has held on to them, unwilling to sacrifice them, not recognizing the extreme reduction in price, and has not been able, therefore, to get the price at which he was holding them. He is now about able to get the price at which he has been holding them. Cotton futures fluctuate, as I have said, very greatly. At the time that the contracts were selling in New York at approximately 16½ cents, spot cotton in the South was not selling at over 15 to 15¼ cents.

The CHAIRMAN. What would be a legitimate difference?

Mr. PARKER. Of course it all depends upon the cost of transportation. The legitimate difference between South Carolina and New York cotton should be about 75 points. In other words, I should legitimately expect to buy spot cotton in the South, middling grade, at about 75 points under the quotation in New York. As a matter of fact, during the last three years, the price has ranged from a condition in which at times futures would be 2½ cents under spots to a point where they were 1½ cents over spots. There has been no response of one to the other, and there can not be under my view of the cotton exchange rules, particularly in New York. I wish to say

here that while I shall use New York in my discussion as an illustration, and I think an extreme illustration, of the disadvantage (and I may almost use the word "curse") of a cotton exchange, at the same time the same complaint in a lesser degree applies to New Orleans. But it applies in an exaggerated degree to New York.

Mr. BURLESON. Mr. Chairman, may I ask Mr. Parker a question?

The CHAIRMAN. Certainly.

Mr. BURLESON. If future contracts can depreciate the price of cotton $15 a bale, or 3 cents a pound, and the holder of the spots in the South will not "turn loose," why do not the manufacturers go to the New York Cotton Exchange and buy contracts and demand the delivery of the cotton?

Mr. PARKER. I am coming to that in a few moments, Mr. Burleson. If you will allow me to keep that in mind, I expect to come to that.

To return, therefore, to the line of argument I was on: There has been this extreme fluctuation. What has been the effect upon the producer? As I have said, during this period he has been unable to sell his own product, because the manufacturer was able to buy elsewhere cheaper. Now, why?

When cotton futures, through the influence of speculation, were forced to the extreme price of 16½ cents—a price above that which the spot cotton could be sold at—such spot cotton as was sold was bought by the intermediate man, who, as we say, "hedged" the sale. That is, he bought the spot cotton, we will say, at 15 cents, and sold futures against it at 16½ cents. In other words, he bought his spot cotton in the South at from a cent and a quarter to a cent and a half under futures. There is a condition where futures have run away from the market, or gone above the market.

A large quantity of cotton was bought during December by the intermediate man under those conditions at about a cent, we will say, under the price of futures. A break occurs; it goes down 3 cents a pound on futures. What does the spot man do who has bought his cotton in the intermediate condition? After having bought his spot cotton a cent under futures he advances his spot cotton, and demands a cent on futures. The result is that during the last month the producer himself has not been able to market his crop, or such portions as he has had left in his hands, because the intermediate man, using the exchange as a hedge, has been able to undersell him, and undersell him at the same time to a very great profit to the intermediate man.

To illustrate: If the intermediate man bought spot cotton a month ago or three weeks ago at a cent and a half under futures, and then had a decline of 3 cents, he was at an advantage of 3 cents a pound in his hedge on the futures. In other words, he had a profit on his futures of 3 cents. The spot man in the South, the producer, stood pat for his 15 cents. He said: "I won't sell my cotton at less than 15 cents." The intermediate man says to himself, therefore, "All I have got to do is to so fix it that I can sell my cotton which I have previously bought and hedged at 1 cent on futures, and undersell the spot producer about a quarter of a cent." Therefore, if futures had declined, we will say, to 13½ cents, he will ask me 100 points on futures, and I will have to pay him 14½ cents for the spot cotton he has bought as against the farmer who is holding for 15 cents. Very naturally under those conditions I have been buying from the intermediate man. I

have been buying what is called "hedged" cotton, and I will continue to buy hedged cotton just as long as that hedged cotton exists. The indications are that it is now pretty well cleaned up. But be that as it may, that hedged cotton has been supplying the spinner's demands during this time of unnecessary and, in my judgment, unjustifiable decline of contracts.

What is the effect of those conditions upon me as a manufacturer? I do not hesitate to tell you, gentlemen, that all the manufacturers resisted the advance in spot cotton this season. I myself was mistaken. I thought that the crop was going to be a good deal larger than it was. The speculator (who foresaw conditions better than I did), I think, this particular season has been of benefit to the producer as a whole, because he has been able to advance the price faster than the spinners would have been able to advance it. He has done that this particular season. But what is the result of this condition on the exchanges? The speculator advanced it beyond the point where the spinner was willing to follow, and therefore the spinner did not follow and has not followed this season above a price of about 15 or 15½ cents, because we have not been able this season to get our goods on a parity with cotton even quite as high as 15 cents—a fair, legitimate parity, so as to allow us a fair, legitimate, manufacturing profit. Twice during this season, however, we have gotten goods to a parity of 15 cents. In the early part of November our goods had reached a parity with 15-cent cotton. As a manufacturer I began to feel encouraged. I began to feel that I had some reasonable prospect of fair profits during the season. But suddenly futures declined, spots did not, and I was again left in the position of having the buyer of my goods judge of the market not by the spot cotton but by futures, because you might as well recognize that the world at large thinks erroneously. They think that futures are responsive to spots. They judge, therefore, of what the manufacturer is doing by what the future market shows. And when a decline of 2 or 3 cents a pound takes place in futures, the consuming world, the jobber, the converter, the man who is going to buy my goods, thinks that there has been a reduction in spot cotton, and that I should therefore make a corresponding reduction in my goods.

Again, in January, after a hard struggle, we for the second time had gotten goods back to a parity with spots. We began again to be hopeful, but this last break has had identically the same effect that it had in November. It unsettled the whole trade, and yet there has not been a break in spot cotton. To-day I can not buy my spot cotton one-quarter of a cent cheaper than I could when it was 16¼ cents. Cotton has been down as low as 13½ cents on futures, and yet spot cotton remains practically unchanged. So the result is, as I said a moment ago, that it is a curse to the manufacturer to have a fluctuation unjustified by spot conditions. So far as fluctuation is justified by spot conditions, we recognize that we have to submit to it; we recognize the fact that we must take the effects of it. But we do protest against any condition in which the influence of the cotton exchanges is such as to give an erroneous impression to the consumer of goods as to what we are doing in the purchase of our raw material, and that has been the effect of the fluctuations on the exchanges.

The Chairman. Is there any way, by hedging or otherwise, in which you can protect yourself against such fluctuations?

Mr. PARKER. Well, sir, I use 75,000 bales of cotton a year, and I have never yet been able to find a way. I study the subject every year, and think I have got something, and I have never yet been able to find a way. If I do it by buying futures on the exchange, before I get through I will find that the futures are away below a parity with spots; I have lost on my futures and have to pay a high price for the spots. If I do it the other way, by buying the spots and selling the futures against them, I am buying the spots before I have sold my goods; then the futures are put up on me, I have a loss on my futures, and I have my spots at the high price. So I have never yet found a way of hedging the cotton.

Mr. HOWELL. In the case of futures being lower than spots, would it not be possible for the speculator to sell spot cotton and buy futures, and make a sure profit?

Mr. PARKER. He does that constantly, sir; and I would not have the slightest objection to his doing it—in fact, I advocate that—if there were such a condition on the exchanges as would keep futures and spots responsive. I contend that they can be kept responsive. I contend, as I shall show your committee, that if the New York Exchange, for instance, decided to adopt rules which showed an intent to make spots and futures responsive, it could be done. But I say that our New York friends, with all deference to them, and in a lesser degree our New Orleans friends, do not desire spots and futures to be responsive. They wish to retain the power of manipulation of futures, which will be to the benefit of the speculator and to the serious disadvantage of the spot dealer.

Mr. BROOKS. Could Congress regulate the rules of an exchange?

Mr. PARKER. No, sir; I do not suppose Congress could regulate the rules of an exchange. And if the rules of the exchange are not regulated so as to be just to the producer and just to the manufacturer, and if their power of speculation is so reserved to them as to be an unreasonable and unfair speculation, to say the least of it, then I contend that Congress in its power must come to the relief of the producer and the consumer, and say to the exchange: "Under your present conditions you are doing an illegitimate and a gambling business, and therefore we must exclude you."

The CHAIRMAN. Just what is the practice of the exchanges which gives rise to this illogical difference between spots and futures?

Mr. PARKER. I am going to read you, if you will allow me, a report of a committee which emphasizes those conditions two years ago; and I will show you how conditions have changed since that time.

This is a report of May 21, 1908, and is a report of representative cotton spinners. The chairman of the committee making the report is Mr. Ellison A. Smyth, of Greenville, S. C., who is president of the Pelzer Manufacturing Company, and one of the largest spinners in the South. On the committee was Mr. Arthur H. Lowe, of Fitchburg, Mass., one of the leading spinners of the East; and there were other representative spinners on the committee from both North and South. Our report is as follows:

Your committee would express their hearty commendation and approval of the recent report made by Herbert Knox Smith, of the Bureau of Corporations, with reference to the question of cotton exchanges. This report exhibits great care and study of the situation, and is so manifestly just and the criticisms made of the exchanges so true that your committee can but express their hearty approval of the report. We

feel that the cotton trade at large is under obligations to the commissioner for the care and study he has given to this matter.

In view of this report it is needless to review the conditions so clearly pointed out applying on the New York Cotton Exchange, and to a much less extent on the New Orleans Exchange, tending to make a contract purchase on these exchanges of less value than it should be. Theoretically the cotton contract on the exchanges should represent the value of spot cotton, and it is an absurdity when there is such a variance in the price of cotton as represented by the contract on the exchanges and the price of the contracts themselves. These differences on the New York Exchange are so great as to render practically valueless a hedge made by a cotton broker on the exchange or a purchase made by a cotton spinner. Indeed, the differences between the value of the contract and spot cotton being so great have caused enormous losses to both classes of operators, and based upon the experience of the past several years would make it imperative that these operators cease the use of the New York Exchange for the purposes stated.

In that connection I want to give you gentlemen a practical illustration of the effect of the rules of the New York Cotton Exchange.

The CHAIRMAN. Before you do that, do you refer to all the rules or some of the rules?

Mr. PARKER. I am going to refer to some particular rules that I regard as being the ones which are objectionable, and which we think tend to keep this disparity and to make illegitimate speculation possible.

The CHAIRMAN. Suppose you mention the rule to which you are going to address yourself.

Mr. PARKER. The committee then goes on:

In 1906, at the Asheville meeting, your association considered carefully the question of the character of cotton to be delivered on contracts. We reaffirm the position taken by our association at that time. That position was as follows:

"Cotton to be of any grade from low middling to fair, inclusive, and if tinged or stained, not below low middling (fair color) in value.

"Price to be based on middling, with additions and deductions for other grades to be made according to rates of cotton exchange existing on the afternoon of the day previous to the date of notice of delivery."

In other words, we want to get away from that question of fixed differences which the New York Exchange operates on. I presume the committee understand the rule of fixed differences. Nevertheless, I will take the liberty of explaining a little bit more about it.

The New York Cotton Exchange, through its committee, meets in November of each year. At that time, although only a very small portion of the crop has been gathered, it, in effect, undertakes to say what is going to be the character of the crop for the year, and therefore it undertakes to say what is going to be the value of stained cotton, as contrasted to white middling cotton, or what is going to be the value of middling fair. Middling fair is the very finest character of cotton, just as white as snow, and has no defects, no leaf, or no trash in it. They undertake at that time of the year to say what shall be the differences. They say, in effect, that middling fair is to be worth a cent and a half, we will say, on middling, or middling stained is to be worth a cent off from middling. Of course, those differences are afterwards fixed commercially by the conditions, depending on how many bales of middling stained appear on the cotton-crop market that year, how many bales of middling fair appear, how many mills can use middling fair, and how many mills are using middling stained. Therefore the market differences will vary very greatly from the fixed differences made by the New York Exchange.

The New York Exchange says that cotton must arbitrarily be worth so much more or so much less than the middling. We say it ought to be fixed by commercial differences, so that I could go there and take up a certain character of cotton and get it at its true commercial value, regardless of what New York arbitrarily says it is worth. Therefore, to the extent that the option is given to the seller to do the delivery, it is he who must determine what class of cotton he is going to deliver to me as a spinner. If I buy cotton, basis middling, it is the seller who is going to say whether he is going to give me middling fair or give me middling stained. He, of course, is always going to give me that class of cotton which is most undesired at those arbitrary differences; and to that extent he depresses the general run of cotton.

To illustrate that, Mr. Chairman: In January, 1908, I bought 5,000 bales of cotton from a certain intermediate man, a thousand bales a month, for delivery in January to May, inclusive. At that time New York contracts were selling at 9.90 for May. I bought those 5,000 bales of cotton at 110 points on May. To begin with, that was an absurdity—that I should be buying cotton in South Carolina and having to pay, where the cotton is raised, 110 points more than it was theoretically worth in New York. That was an absurdity on its face. But the New York Exchange quotations then were away below the parity, away below the price of spots. Therefore the intermediate man said: "I have got to ask you 110 points on New York." I agreed to pay 110 points on New York for those 5,000 bales. Futures were 9.90. That made the spot cotton cost me 11 cents.

What happened? Spot cotton advanced; and when my freind went to deliver the spot cotton to me, he had to pay 12½ cents for it in place of 11 cents. What became of futures? Although spot cotton advanced a cent and a half, futures went down a quarter of a cent. What was the result? The man broke. He could not stand the strain. He has a loss there. That was only one of many contracts he had. It was a perfectly legitimate sale.

The CHAIRMAN. Do you know whether he had attempted to protect himself?

Mr. PARKER. Oh, yes; he bought futures. He had the futures. He bought futures at 9.90.

The CHAIRMAN. And he "went broke" because futures went down?

M. PARKER. Futures went down, and spots went up.

Mr. BEALL. He lost on both sides?

Mr. PARKER. He lost on both sides of the market; and that is constantly happening. I say to you as a spinner, to-day, that I do not care how strong an intermediate man may be; I do not care whether it is George H. McFadden or not; I do not care how strong he is—it is always a serious question with me, when I buy up spot cotton from the intermediate man, as to whether he will be able to stand the strain of the differences existing between spots and futures.

Mr. CONE. Was not that the result of abnormal conditions?

Mr. PARKER. It was; it was the result of abnormal conditions. But I say abnormal conditions ought to be represented in spots and contracts at the same time. If the conditions were abnormal, they ought to respond. Both spots and futures ought to respond to those abnormal conditions. The condition was that although the exchange met in November and said that middling stained or low ordinary (which is a very low grade of cotton) was to be so many points less

than middling, as a matter of fact there was such a great proportion that year of middling stained and strict low middling stained and low ordinaries that the price of those low grades became very much less than the New York Stock Exchange said they were. Therefore futures went down, but the man who wanted white cotton had to pay for it. White cotton went up, and middling is white cotton. Theoretically, middling cotton should have been delivered to me. Practically, if I went to get a delivery, I would have got that class of cotton which was least in demand, of which there was the greatest quantity, which would have had the effect, they knew, of making me run away from the New York Cotton Exchange and take my losses rather than take up the cotton.

I contend that that is a defect to-day in the rule of the New York Exchange. In the first place, they deal on what they call arbitrary differences, and do not recognize the differences fixed by the law of supply and demand, which I contend they should recognize. But in addition to that, with all deference to my New York friends, I am willing to take my chance on speculation if I am going to speculate. Personally, I never do it. I have never bought a bale of cotton on speculation in my life, and never expect to. But I am willing to take my chance in speculation if I have an even chance. But I say that any man who speculates is entitled to an even chance. Now, do they give a man an even chance?

Suppose I take up, as I did last year, 1,200 bales of cotton. I took up last January 1,200 bales of cotton on the New York Exchange. Futures were away below the price of spots. I could not buy spots in the South for within a cent of what they said they were worth in New York. I therefore said: "I will take up my cotton in New York and ship it back down South." I would pay the freight and still be a winner on the cotton. When I go to take up that cotton, you must recognize, first of all, that every option is given to the seller. It is the seller who is going to say what kind of cotton he is going to give me. I have bought basis middling. I was simple enough to think I was going to get something approaching middling cotton, anyhow. I soon learned very differently. I soon learned that I would get the most undesirable cotton to be seen in the United States, that congregates and is drawn to New York, as a rule. This season there has not been that class of cotton. Therefore they can say, very truthfully, that this season there is a very good class of cotton up there. But we have been "burned" so often that I do not dare, even this season, to take up cotton.

To come back to last season. What happened? I took up 1,200 bales of cotton. I was given certificates with every grade that could possibly be found in the United States which was liable to be passed on the New York Exchange on the certificates. In other words, take a certificate of 100 bales of cotton. I had 18 different grades on 100 bales of cotton. I had the expense of my going to New York, or of my sending a representative there, to sort out that cotton. The same mill does not use middling fair cotton that uses good ordinary, for instance. Good ordinary is used for one purpose and middling fair is used for an extreme purpose. Middling fair cotton will be used in making the finest hosiery or the finest underwear. Good ordinary will be used for making the coarsest articles of the same kind, where the matter of color, etc., does not make any difference.

But they put on the same certificate every grade that could be found in the market which was liable to be delivered under their contract. Why? (This is said with all deference to my friends.) It is done in order to, as we say, "scare" the man away from the delivery. It is done so that he will not take up a delivery, but will run away from it rather than take up the cotton.

Mr. BURLESON. If he has bought, it is done to make him sell?

Mr. PARKER. That is what he wants to do. If I take the cotton, he wants to make me have to turn it right back on the exchange.

Mr. BURLESON. Did you ever look at any of the cotton?

Mr. PARKER. I am going to tell you. In 1907, I think it was, or 1908—anyhow, within the last five years—futures were so low, and I wanted spot cotton and needed it in my business so badly, that it looked to me to be just the very thing to go up there and see if I could not get some cotton in New York and ship it back to South Carolina again. Mr. Theodore H. Price had just taken up 10,000 bales of cotton. He asked me to come up there and see it. I went through the 10,000 bales he had taken up. He was very anxious to ship it out, to get rid of it. And while I recognize and say in justice to my friends that that particular condition has been in a measure rectified since, at that time I was offered cotton which no spinner in the world could have spun. My friends will say: "Well, it went out; it went into consumption." Yes; it went into consumption, like stuffing horse collars and doing things of that character. It did not go into legitimate consumption as spun cotton. And the effect of having that class of cotton up there, kept over there year after year and month after month, delivered one time and redelivered back on the Exchange, was to scare the legitimate dealer and the legitimate spinner away from delivery on the New York Cotton Exchange. Therefore the effect of it necessarily would be to depress futures in contrast with spots. That particular season futures were selling at more than 2½ cents under the price of middling cotton from the South. I say that that condition is brought about by illegitimate conditions on the New York Exchange, which we as spinners, North and South, have repeatedly asked to have corrected, and have not been able to secure it. It affects our business disastrously, and therefore we say we are justified in asking for its correction here.

Mr. LEVER. What is the relative position of New York as a spot market as compared to New Orleans?

Mr. PARKER. New York is not (I suppose I may use the expression) a legitimate spot market. In other words, the only character of cotton which goes to New York is that cotton which, as a rule (of course there are exceptions to a general statement), is sent there with a view of delivery on contracts. Take, for instance, the last part of December and the early part of January, when cotton rose to 16½ cents in futures. That was above the parity of spots. Therefore a dealer in the South would ship cotton to New York and deliver it on the contracts, because he could get more that way than he could by selling it to the spinner in the South or to the spinner in the East. He could get more from delivery on contracts. But practically the New York stock of cotton represents this cotton kept in that way for delivery from time to time on contracts. You will readily recognize that as a rule—this year has been the exception—it is the undesirable cotton which is so delivered. It is the class of cotton which there is no other demand for.

Mr. BURLESON. The "overs" and mixed lots?

Mr. PARKER. The "overs" and mixed lots, or the extremely high grades, which are just as bad as the extremely low grades.

Mr. NEVILLE. You spoke of cotton which you got from New York in January, 1908—was that the date?

Mr. PARKER. No; January, 1909.

Mr. NEVILLE. Well, you mentioned it some time before as being in January, 1908.

Mr. PARKER. No; the delivery in January was 1909. The time I referred to in connection with Mr. Price's cotton was either 1907 or 1908.

Mr. NEVILLE. What was the average grade of the total crop in 1906-7 and 1907-8?

Mr. PARKER. I am trying to fix the different years. In 1907, my recollection is, it was a very low grade.

Mr. NEVILLE. That is the year you had the storm in September which ruined the grade, where you could not get telegraphic communication with the South for a week.

Mr. PARKER. That is right.

Mr. NEVILLE. That was a very low-grade crop?

Mr. PARKER. That was a very low-grade crop.

Mr. NEVILLE. One minute, please. So that by Christmas, 1906, strict and good middling cotton did not exist except in the hands of dealers who had bought it and held it as merchandise?

Mr. PARKER. I would not state it quite so generally as that.

Mr. NEVILLE. Well, approximately?

Mr. PARKER. I would say that the supply of the high-grade cotton was very much less than the demand for it—very much less than usual.

Mr. NEVILLE. Very much less than usual?

Mr. PARKER. Yes.

Mr. NEVILLE. To get right back to the firm you mentioned that failed, I was fearful that the committee might think that the particular transaction you mentioned caused that firm to fail.

Mr. PARKER. No; it was not big enough for that—only 5,000 bales.

Mr. NEVILLE. I understood that, but I was afraid the committee might think so, the way the matter was left; and I do not want them to think that you left it that way intentionally.

Mr. PARKER. No.

Mr. NEVILLE. We are only discussing this thing in a calm way.

Mr. PARKER. Yes.

Mr. HOWELL. Before you resume your statement, let me ask what futures you deal in in cotton?

Mr. PARKER. What futures?

Mr. HOWELL. Yes.

Mr. PARKER. Suppose I want cotton for delivery in June—I buy June cotton. If I want it delivered to me in July, I buy July cotton. Ordinarily, when I speak of disparity, though, I mean the current month, with the current prices of cotton that day.

Mr. HOWELL. I have reference to the New York Cotton Exchange. You can buy cotton for delivery in any month of the year?

Mr. PARKER. Oh, you can buy it for a year or more ahead; yes, sir. The fact is I have bought cotton in Liverpool for eighteen months ahead.

Mr. NEVILLE. Right there, if you will allow me, you can only buy it in New York eleven months ahead.

Mr. PARKER. Eleven months ahead? Well, I will accept that correction. I thought it was a little bit over a year. Mr. Neville says it is little bit less than a year. But in Liverpool I am correct in saying that you can buy it two years ahead.

Now, to come back, gentlemen: The effect of the action of the exchange is to give every option to the seller; and he has an option to make that delivery at a fixed difference regardless of what is the value of cotton. Suppose he were offering me, for illustration——

Mr. LAMB. Do we understand you bought in Liverpool and shipped back here?

Mr. PARKER. No, sir. I thought at that time that Liverpool was unduly depressed; and as a manufacturer I thought it was a very good chance to hedge, myself, and I hedged in Liverpool. I may add that it did not respond quite as fast as I had expected. I came out all right, but not as fast as I had expected.

Now, I am going to give you an absolute illustration, sir. I sold last May or April the product of my Mononghan mills for nearly eighteen months, or over fifteen months, from April, 1909, to January, 1911. I sold the entire product of that mill at one sale. I figured then, as a business man, only upon the parity between spots and goods. Therefore I figured, "How much can I buy my spot cotton at, based upon what I can get these gentlemen that are going to sell me to sell at, and what I sell my goods at—how much profit have I got in the parity?"

When I made that sale there was such a relation between spots and futures that I had to pay a considerable amount on the futures to get my spots. In other words, we will say, I paid fifty or sixty points, my recollection is, in part, and for some of it as high as a cent on a pound, on futures, to get my spots. The intermediate dealer then had this condition: He covered himself with those futures, of course, and he has been delivering me cotton from time to time since then. During that period I have seen futures rise to a cent and a half a pound over spots, through the process of this circulation. At that time the spot cotton, the stock of cotton in New York, had been greatly reduced. There was only, I think (I am speaking generally), about 30,000 bales in New York. Therefore the speculator was not afraid of that 30,000 bales. Under the operation of that condition, in which the spots got way below the futures, through the force of speculation, a large stock of cotton was drawn to New York. What was the effect, immediately? That was used as a hammer to hammer down futures, so that futures fell 3 cents below spots, because the spinners ran away from those bales in New York. We were not willing to take the cotton in New York under those conditions. As far as I know, very few spinners take cotton in New York. A few of the Fall River men do it at times, but a very small percentage are willing to do it. If they were to have their rules so that I could demand the cotton, even with my little purchase of 75,000 bales a year, I could keep spots and futures in parity. I could do that if they would have their rules so that I could count on receiving cotton of the class which represents the great mass of the spinning cotton. In an average year I believe I can safely say that 90 per cent of the cotton of the South ranges between low middling and good middling. In the average season, such a season as this, I think I can safely say that only 10 per cent is

below low middling or above good middling. Yet it is those extreme grades, represented by that 10 per cent, which tend to depress the whole 90 per cent of the South's cotton.

Why is that? Suppose, Mr. Chairman, you were a cotton dealer who wanted to buy a thousand bales of cotton—how would you do it? You would send out a telegram to your correspondents and authorize them to buy you a thousand bales of cotton—not, usually, at a fixed price, but a thousand bales of cotton at so many points on New York, or so many points off from New York futures, as the case may be. One time it is on, and another time it is off, according to the fluctuations of the exchange. But practically every man who buys cotton buys it in relation to futures. Therefore it is impossible to say that the fluctuations in futures do not affect the producer, because the purchase of almost all cotton is made with relation to either New York or New Orleans futures.

Mr. LEVER. Do you mean to say that the local cotton buyer in the local market is absolutely controlled in the price that he gives to the seller of cotton, the farmer and the producer, by the futures of New York and New Orleans?

Mr. PARKER. Yes, sir; I do. Take, for instance, myself as a spinner. Suppose I wanted to have, as I do have, a number of agents throughout the cotton section buying cotton for me during this fall. I can not afford to keep up all the time with the market. I can not give them a fixed price, because if I gave them a fixed price one time I would be above my competitors and another time below my competitors who are buying on the basis of futures. Therefore my instructions to my buyers will be to buy at so many points on New York or so many points off New York. So it is with regard to my friend Mr. Neville. I think I am not mistaken in making this statement. He is one of the largest cotton dealers in the United States. If he sends out instructions to that effect, his buyers throughout the whole South—and he does buy through a very large portion of the South—buy what we call "parities." That is, the buyer is given a certain relation to New York to buy on. He either buys at 40 points on or 50 points off in the futures. Now, take a case, Mr. Lever, where I have bought 1,000 bales of cotton from the intermediate dealer. I have bought it at the price of New York futures, we will say. He agrees to sell me, at May quotations, a thousand bales of cotton for delivery in March, April, or May. He has not got the cotton there; he buys the futures. He immediately becomes interested in the sustenance of those futures. He wants to see futures at least sustained on a parity with spots. Suppose futures go down. The minute futures go down he has a loss in his future transactions. He is going to make that good by trying to force spot cotton down correspondingly. And there is one very serious effect that the fluctuation of futures has on spots. The very minute the intermediate man who has sold me cotton buys futures, he becomes a bear on the market, especially if the futures decline, because he has a loss on his futures. In order to save himself from that loss he is trying to force a corresponding decline in spot cotton; and it is futures which in the end fix the price of spot cotton.

There are of course certain seasons when the farmer in his independence can overcome that. He overcame it in 1908; and if the

committee will allow me I will just read a portion of this report over again. In the report we say:

In conclusion, your committee would heartily congratulate the planters of the South upon the remarkable manner in which, notwithstanding adverse conditions of the times and the adverse conditions on the exchanges, they have been able by the exercise of good business judgment to dispose of their crop at fairly remunerative prices. Your committee feels that were it not for the strength of the farmers in the South, under those conditions very low prices would have been obtained during the past season, and therefore most heartily congratulate our farmer friends upon the excellent manner in which they have managed the disposal of their crop during the past season.

It was due to this very independence and the fact that at that season they were fairly well off, just as they have been this season. They have been able this season to withstand those extreme fluctuations; but it has been due to the fact that they had the financial ability to hold their cotton, and were not forced to put it on the market. If they had been forced to put it on the market they would have felt the effect of it.

Mr. MENDELBAUM. Would this man that sold you that 1,000 bales of cotton from January to June have sold it to you if he had not had some place to hedge? You say he bought futures. Suppose he had not had any place to buy them—he could not sell it to you, could he?

Mr. PARKER. I will say to you, gentlemen, very frankly, that he would not have; and I think if he did I would not have bought it from him. If he had not had some place to hedge I would not have bought it from him, because I do not think he could have stood the strain.

A GENTLEMAN. Do you not consider it rather an unnatural procedure to go from South Carolina to New York to buy cotton?

Mr. PARKER. Oh, absolutely, sir—absolutely unnatural.

A GENTLEMAN. There is another question I should like to ask you, sir: If a contract in New York called for all middling cotton, or all strict middling cotton, do you not think we would have corners up there pretty nearly every month?

M. PARKER. Unquestionably; and therefore the spinners have never asked that. What the spinners do ask is this: We give them the whole range of low middling to fair; but we say: "Do not put on there an extreme cotton like ordinary, which is dirty, and can only be used by a very few spinners."

Mr. NEVILLE. We do not deal in ordinary—good ordinary.

Mr. PARKER. Well, good ordinary is one grade higher than ordinary; but you did deal in ordinary at one time.

Mr. NEVILLE. Never.

Mr. PARKER. Never? Well, I beg your pardon; good ordinary, then. But still, at the same time, good ordinary is a very low grade of cotton as contrasted with middling or strict middling, which the great mass of spinners use.

Mr. LEVER. How many grades do they have on the New York Stock Exchange now?

Mr. PARKER. My understanding is that they have 30 grades now, counting the quarter grades.

Mr. NEVILLE. Counting the quarter grades there are 28, I think.

Mr. LEVER. Either one of those grades is deliverable upon a contract?

Mr. PARKER. Any one of those grades; and it is at the seller's option.

Mr. LEVER. At the seller's option?

Mr. PARKER. Yes, sir. I am trying to make clear to you that what I want is this: If the exchanges will give us a condition in which spots and futures keep together, I say the farmer can take care of himself and the spinner can take care of himself. But do not give us a condition in which there is disparity between spots and futures, and one is used as a hammer to hammer down the other.

What the spinners ask is that all the option be not given to the seller. Let the buyer, the consumer, have some option in the class of cotton, so as to keep the two together. Therefore we ask this (reading):

That at a reasonable time before tender date the buyer may give notice that he will require the delivery to him of the grade average middling, nothing below low middling, nothing above good middling, and for such option he should be required to pay a reasonable excess over contract price, say one-quarter cent per pound.

If that rule is passed, gentlemen, I will guarantee you that spots and futures will stay within one-quarter of a cent a pound of each other all the time; and I will guarantee that the seller and farmer will have no reason to complain of these enormous disparities.

Mr. SIMS. I should like to ask you a question, Mr. Parker. Could there be, practically, any considerable amount of hedging in deliveries for November, April, or June, in which there are practically no future dealings?

Mr. PARKER. No, sir; I would not think so. Of course, I know there have been times in the past when there were sellers who would sell in those months, but as a rule I regard it as extremely perilous unless a man has the spot cotton in hand. The effect of it would be this upon the spinner: (I admit that if they abolish the exchanges I will have to readjust my business, but I can readjust it in this way.) In place of buying contracts, I will simply have to buy spot cotton and put it in my warehouse and keep it for the months when I want to spin it. It would make an anticipated demand for spot cotton.

Mr. SIMS. Now, another question: If futures have any legitimate, rational relation to the actual cotton dealings, why is it that there are not so many futures sold in November as in October or December?

Mr. PARKER. Because speculation simply selects certain months.

Mr. SIMS. And it has no relation whatever to supply and demand for those particular months?

Mr. PARKER. No. For instance, November is an inactive month.

Mr. SIMS. Why? Because the gambler neglects it?

Mr. PARKER. Because the speculator prefers other months. February, for instance, is an inactive month. April is an inactive month; June is an inactive month.

Mr. LEVER. I should like to ask you a little further about the grades on the exchange. I understand there are 28 grades. I understand that at one time the New York Exchange abolished the quarter grades.

Mr. PARKER. Yes.

Mr. LEVER. Do you have quarter grades now?

Mr. PARKER. The quarter grades have been restored.

Mr. NEVILLE. Not altogether.

Mr. PARKER. Well, partly restored.

Mr. NEVILLE. From full low middling up to full good middling.

Mr. PARKER. They have been partly restored.

Mr. LEVER. I understand you to say from full middling——

Mr. NEVILLE. From full low middling up to full good middling.

Mr. LEVER. As a practical mill man, is there any difference between your middling and your full middling?

Mr. PARKER. I can only say, as a mill man, that I have never known mill men to buy full middling. We only buy——

Mr. NEVILLE. If you buy a thousand bales of spring delivery cotton, according to your Carolina mill rule, the seller has the option of delivering you half a grade above and half a grade below?

Mr. PARKER. If you so express it, for an average.

Mr. NEVILLE. If you so express it, he will sell for an average?

Mr. PARKER. Yes, sir.

Mr. NEVILLE. In other words, you can deliver 10 per cent below middling if you deliver a corresponding 10 per cent above good middling?

Mr. PARKER. That is right.

Mr. NEVILLE. So, after all, in buying your average strict middling, or whatever your average grade may be, you are liable to have to take from half a grade to a whole grade below and from half a grade to a whole grade above?

Mr. PARKER. Yes. Now let me explain that to the committee.

Suppose I buy a thousand bales of average strict middling cotton. Strict middling is a half grade between middling and good middling. I have bought average strict middling. I further limit the purchase by saying, "You can give me nóthing above good middling; you can give me nothing below middling." Therefore I will get an average strict middling. But the classification of cotton is not an exact science. It is a matter of eyesight; it is a matter of experience; it is a matter of half a dozen conditions which make the grade of cotton. Therefore, in order to cover those differences, which will occur between the most honest men, we will allow the seller to give us 10 per cent, if necessary, below middling, if he offsets that by giving 10 per cent above good middling. We will average that 10 per cent and simply have an allowable variation to cover differences of opinion—that is all.

Mr. LEVER. Mr. Parker, if I understand you, as far as you are concerned as a business man, there is no difference between the quarter grades and the full grades that you can see?

Mr. PARKER. I can not determine them, although I buy a good many bales of cotton.

Mr. LEVER. Why should these quarter grades be maintained? What is the purpose of maintaining them?

Mr. PARKER. I can not see what the purpose of it is. I can see what the effect of it is, in my judgment.

Mr. LEVER. What is the effect?

Mr. PARKER. The effect is a depressing effect on the contracts, because it is allowing an additional difference, an arbitrary difference, to be added on or deducted, as the case may be, from the ordinary price of the cotton, so as to have the effect of making it against the advantage of a man to take up the cotton. That is the effect of it. Of course, I do not for one minute contend that my good friends will do that intentionally; but that is, in my judgment, the effect. Take, for instance, good middling: A class of cotton which they would call full good middling is worth about eight points on.

Mr. NEVILLE. A sixteenth of a cent——

Mr. PARKER. A sixteenth of a cent more than good middling; yet it would take a mighty exact man to determine the difference in appearance between the good middling and the full good middling. Therefore, if I take up and deliver what they call full good middling, I am at a sixteenth of a cent disadvantage in my trade; and therefore I run away to that extent from the trade.

Now, gentlemen, so far as I am concerned, that is all I have to say as representing myself as a large consumer of cotton. I feel that the exchanges to-day, as now operated, are not of advantage to the consumer of cotton. I am satisfied they are not of advantage to the producer of cotton. Notwithstanding the most illustrative reports of the government officials, notwithstanding the earnest protests of the mill men who are the consumers, and notwithstanding the protests of the producers, it seems impossible to make our friends on the exchanges realize the justice and fairness of our complaint. The complaint, I feel, is just and fair. I feel, therefore, that the only way in which we can hope for relief is through government action. If the Government, speaking through your committee, feels that the effect of these exchanges is unfortunate for trade, that their effect is to depress the value of the product of the producer, that the effect is to disorganize the business of the manufacturer, and that the result of that is speculation, and that these exchanges, through the rules that they adopt, favor speculation—I say, if your committee feels that—I feel that we as consumers of cotton, and my friends as producers of cotton, have a right to come here together and ask for action from your committee.

I recognize no other way of bringing this about. I am a great believer in public opinion. I believe that if the public could be awakened to the evil of these exchanges, and if our friends of the exchange could realize how the public feels, the matter might be rectified without legislation. But it is a hard problem. It is one that very few men understand. It is very hard to make clear to the average citizen the effect of these rules to-day. And I feel that legislation is probably the only way we are going to get relief.

Mr. LEVER. Recognizing, as I do, that Mr. Parker is perhaps the greatest cotton man in the South, I should like to ask him a series of questions and get categorical answers thereto, so that the committee may be in full possession of the situation as he can give it to them.

The first question I should like to ask is this: What is the relation of spots to futures? Of course I understand that you have covered most of these matters, but I should like to have them in a little better shape for the record.

Mr. PARKER. I will answer that, Mr. Lever, by saying that at the present time, under the present conditions, so far as can be done and so far as would be done except for the strength of the individual holder, contracts control the price of futures. There may be a condition, and there has been at various times in the last few years, when the producer simply became so absolutely independent, saying, "I won't sell my cotton at this price," that contracts have not forced the sale of cotton. As a rule, however, the spot cotton is based on futures.

Mr. LEVER. Very well. Now, I will ask this question: What depressing effect, if any, have futures on spots; and why?

Mr. PARKER. As I explained a few moments ago, take the case of the forward hedged sale, the hedged purchase: If I buy a thousand bales of cotton from my friend, Mr. Neville, who sells me for delivery in May, he, in strict business caution, as things have been going, would buy futures. The minute he has bought futures he becomes materially interested in whether those futures decline or not. If they decline, then he has to secure a corresponding decline in spots, or he will be a loser. Therefore, his earnest effort——

Mr. BEALL. Regardless of whether futures decline or not, is he not interested in having spots decline?

Mr. PARKER. Well, yes, he is—certainly, of course. At the same time I take it that the large majority of my intermediate friends are always figuring on legitimate brokerage of a certain amount on the bale; and if they can just get that percentage they are satisfied with their profit. Therefore he is figuring on making a profit, we will say, of 50 cents a bale or $1 a bale. I think most of them figure on 50 cents a bale as a legitimate profit on the transaction of selling.

Mr. NEVILLE. Right there, at that point, if you will excuse me, Mr. Beall: Would not a conservative merchant who sold you in January for May delivery fix the price on that cotton for your May delivery at the price that he would have to pay for the spots, plus the carrying expenses for May, and put that cotton in the warehouse in January?

Mr. PARKER. That is what he should do.

Mr. NEVILLE. Is not that the generality of the practice rather than the exception?

Mr. PARKER. No; I should not say that, Mr. Neville. I should think probably that a man of your financial strength—if you will excuse me for saying it—would do it. I do not think the large majority of sellers would do it. The large majority would wait until later in the season and buy their cotton as they could from time to time, so as not to have to put out too much money in carrying it. There are exceptions to that statement, of course.

Mr. NEVILLE. The question of the price that your seller asks you for May delivery of a stated grade is certainly one where a prudent merchant is not going to take the risk of the remaining crop and the market, and buy his futures with the prospect of buying his spots in May at a point that would be convenient to your mills.

Mr. PARKER. That depends, entirely——

Mr. NEVILLE. He is no merchant; he is a speculator, both in the price he has sold you the cotton for and on the probability of getting the cotton in time for the delivery.

Mr. PARKER. That depends on the season, Mr. Neville. This season, as I say, a man is taking a very considerable risk in selling May cotton without having the cotton, because there is very little left for him now. Last season there was a great deal left. Therefore he could have taken that risk perfectly well, and I think the large majority did take that risk—of selling ahead for the spring and summer months, and depending upon covering it as the months came around.

Mr. SIMS. Let me ask you a question. If a broker sells you a thousand bales of cotton for October delivery and then goes out and buys a thousand to cover it, that is called hedging?

Mr. PARKER. That is right.

Mr. SIMS. As the time approaches to buy the actual cotton, if a large crop appears to have been made the tendency is for a decline?

Mr. PARKER. That is right.

Mr. SIMS. As he wants to buy his cotton largely in September and October, will he not naturally help depress the spot market by dumping his futures before he makes his purchases of spot cotton?

Mr. PARKER. He may do that; but my experience would be that if a man did that, if I learned that a man had once done that, I would never buy another bale of cotton from him.

Mr. SIMS. Would not that be a temptation?

Mr. PARKER. That would be a temptation; but I want to say that the large majority would not do it.

Mr. SIMS. But suppose cotton is advancing all the time—would not the temptation be to do it?

Mr. PARKER. Yes. At the same time, my experience is that nine out of ten intermediates do not let their contracts go until they have bought their spot cotton.

Mr. SIMS. But they could do it?

Mr. PARKER. They could do it, unquestionably. I can only say to you that as a large consumer—and I think my friends will say the same thing—if I ever thought a man was doing that I would not buy any more cotton from him, because he would be broken. Ordinarily a season like this would have broken him.

Mr. SIMS. He would have just taken the risk?

Mr. PARKER. He would have taken the risk.

Mr. WEBB. Is it not true, Mr. Parker, that the higher futures go the lower the basis is of spot cotton?

Mr. PARKER. That is correct as a general proposition, especially where futures are carried, as they were this last season, above the basis where they can be used legitimately in spinning.

Mr. WEBB. Therefore a spot man that sold you a thousand bales of cotton would not want to depress the market, because the higher the future market went the cheaper he could buy?

Mr. PARKER. No; the only time that his effort to depress comes in is where futures have declined, although spots have not. It is where futures have declined, and he therefore wants to bring spots down to the basis of futures.

Mr. MENDELBAUM. I should like to ask you a question. Will you buy cotton largely from a party unless you are satisfied that he hedges?

Mr. PARKER. I will not under present conditions.

Mr. MENDELBAUM. You will not?

Mr. PARKER. I will not buy cotton in any quantity from a man who does not hedge. If the hedging were done away with, if the futures were done away with (as, under present conditions, I feel that they had best be), I would simply change my methods of business. I would not buy forward months at all; I would buy spot cotton and put it in my warehouse. Take, for instance, inch-and-a-quarter cotton last season. I believed last season that inch-and-a-quarter cotton was too low, as you did, no doubt; and therefore, under those circumstances, I bought all the inch-and-a-quarter cotton I needed for next October out of last year's crop.

Mr. MENDELBAUM. Who did you buy it from?

Mr. PARKER. From Vicksburg, Greenwood, and Greenville.

Mr. MENDELBAUM. Did you buy it from parties that you had reason to believe hedged their sales?

Mr. PARKER. Oh, no; I bought spots.

Mr. LEVER. You have said something about fixed differences in the course of your remarks. Many of us do not understand the terms of the New York Exchange. Would you mind explaining that, and the effect it has upon futures?

Mr. PARKER. The marked difference between the New York and the New Orleans exchange is on that question of differences. In New Orleans you will find, as a general proposition, that spots and contracts remain on a reasonable parity with each other, because the differences between the different grades are fixed in New Orleans day by day according to the market difference of the law of supply and demand, and according to what anybody would go and pay for this cotton as contrasted with that cotton. New Orleans fixes it by the market day by day. New York says: "We have this wonderful power of anticipating, in November, and saying what is going to be the condition all the rest of the year." Therefore we will find that New York adopts arbitrary differences, and therefore does not keep the same parity between spots and futures that New Orleans does.

The CHAIRMAN. I thought New York fixed the differences twice a year?

Mr. PARKER. New York fixes the differences nominally in September, Mr. Chairman; but, you see, any man in the world who claimed to fix differences for the coming year in September would be a prophet of great wisdom. Therefore the September difference is only a nominal affair, one that is very seldom changed, I think, or changed only very slowly. The fact is, I think, the feeling generally is that September changes are sometimes made as a result of how the members of the committee happen to be on the question of spots and futures. In other words, it is too great a temptation.

Mr. CONE. Mr. Parker, let me ask you this question: If New Orleans happened to have 200,000 bales of cotton grading, say, strict low middling, and some one in New York had bought 200,000 bales of futures in New Orleans—if, considering the difference prevailing there, they had bought their futures in New Orleans—would not they be liable, when they came down there, to demand the cotton? Have you never heard of instances where New Orleans has fixed that basis against them, and said, "The market difference now is so-and-so, because there is this demand here for this cotton?"

Mr. PARKER. There was one year—let me see; I can not just tell you offhand what year it was—I should say, though, about 1903; was not that the year that they made that claim? Anyhow, one year they claimed that New Orleans did vary its differences in order to meet a condition where they were afraid the spot cotton was going to be taken out of their market by this demand for delivery. That may be true. I am not defending the New Orleans Exchange. I have no brief for the New Orleans Exchange. But I do say that, as a system, the arbitrary differences tend to depress the futures; and that as a system, therefore, it is indefensible.

Mr. BURLESON. Mr. Chairman, I should like to ask Mr. Cone a question. Do you think that was right?

Mr. CONE. No; it was absolutely wrong.

Mr. BURLESON. It was robbery, was it not?

Mr. CONE. Certainly.

Mr. BURLESON. It was uncommercial, uneconomical?

Mr. CONE. But that can not be done under your fixed differences in New York.

Mr. PARKER. That particular thing could not be done in New York; and that is one of the few things they could not do.

Mr. HAUGEN. Did you say that if there were no exchanges the cotton merchants would be compelled to buy cotton offered on the market and put it in warehouses?

Mr. PARKER. I would regard that as necessary if I wanted to sell ahead on my goods.

Mr. HAUGEN. If that condition were brought about, what effect would it have on spot cotton?

Mr. PARKER. I think, on the whole, it would have the effect of "firming" the price of cotton—making it firmer—because it would mean that the invisible supply carried by the spinner would have to be always larger than it is now, and therefore it would have the effect of giving firmness to spots, in my judgment.

Mr. HAUGEN. If you had to carry that cotton in the warehouses, it would not in the end cost you more than if the farmer or cotton factories were carrying it, would it?

Mr. PARKER. Theoretically they add the carrying charge onto my price.

Mr. HAUGEN. It is always added, anyway?

Mr. PARKER. Yes, sir. For instance, if they were selling me for delivery this month, they would sell at one price. If it was for delivery next month, theoretically they would add on the carrying charges, which, at the present price of cotton and interest, amount to about 12 points on. They would add 12 points on for March, and they would add 24 points on for April. That is theoretically the case. Of course a man can not speculate as to what he thinks he is going to do with his futures.

Mr. LEVER. The statement has been made that this year, this past cotton season, speculation has had a tendency to increase the price of cotton. I rather agree to that statement. How about speculation affecting the price as a usual proposition?

Mr. PARKER My judgment is that speculation in an average year has a very serious depressing effect on cotton.

Mr. LEVER. For a cycle of five years, for instance?

Mr. PARKER. My judgment is that in four years out of five the effect is depressing rather than the reverse.

Mr. LEVER. The effect is depressing rather than the reverse upon spot cotton?

Mr. PARKER. Yes, sir. That would be a pure question of judgment, of course—one man's opinion against another's.

Mr. MENDELBAUM. I should like to ask you one question, Mr. Parker. You are very familiar with conditions through the South. You are extremely familiar with everything pertaining to cotton. You undoubtedly are aware of the fact that the bulk of the cotton crop comes in between October and November and December. In your judgment, what effect would it have if all that cotton that came in during those three months, when practically two-thirds or three-fourths of the crop is coming in, should depend for a buyer exclusively on the middlemen?

Mr. PARKER. If there were no hedging possible on the part of the intermediate men by the sale of futures, and if the southern farmer were to continue the policy of marketing all of his crop during a period of two or three months, I think the effect would be depressing on spot cotton.

Mr. MENDELBAUM. There is another question that I should like to ask you.

Mr. PARKER. Just allow me to say (and I am sure my farmer friends will agree with me in this) that my fight and their fight lies in educating our farmer friends to properly warehouse their cotton, as you do your wheat in the West, and market it gradually during the season, rather than to take and put it all on the market at one time.

Mr. MENDELBAUM. There is another question, Mr. Parker, which with the permission of the chairman I should like to ask you. This is not in so many words a bill to abolish the exchanges, but that is the real purpose of the bill. Suppose it were successful in that endeavor, so as to abolish all the exchanges of this country. What effect, in your judgment, would it have if the Liverpool Cotton Exchange were the only cotton exchange in the world to dictate the price of cotton?

Mr. PARKER. My information—I have never traded on the Liverpool Exchange on the spot—is that the speculative feature of the Liverpool Exchange is almost altogether from America; that the Liverpool Exchange is used very little for speculation by the Englishmen; that it is America that speculates on Liverpool, to bring Liverpool up or down to the American exchanges.

Mr. MENDELBAUM. But, Mr. Parker, that would be abolished in that contingency, would it not?

Mr. PARKER. Yes, sir; in that case.

Mr. MENDELBAUM. If there were no exchanges here, there would be no hedging between the two exchanges?

Mr. PARKER. Of course.

Mr. MENDELBAUM. And that is the condition I have in view in asking you that question. I want to repeat my question: What effect would it have upon the value of cotton, in your judgment, if the Liverpool Exchange, over which you have absolutely no jurisdiction, were the only one to dictate the price of cotton?

Mr. PARKER. I think that if the Liverpool Exchange were the only one, unquestionably a certain amount of speculation which is now done on the New York and New Orleans exchanges would be transferred to Liverpool. And if the effect of that speculation on New York and New Orleans is—as I think it is—to depress the market, I think it would have the same effect on the Liverpool Exchange; it would have a depressing effect. But, at the same time, I think no condition could arise under which the crop would be sold over, as now, twenty or thirty or forty times a year on the New York and Liverpool exchanges. I think the amount of speculation would be infinitesimal compared with what it is now.

Mr. MENDELBAUM. But, Mr. Parker, that is not exactly the question I ask you. I did not ask you about selling the crop over twenty or thirty or forty times, or its effect. I ask you simply the broad question—and I believe the committee will bear me out in the statement that it is a very fair question——

Mr. PARKER. Well, sir, I am certainly anxious to answer it.

Mr. MENDELBAUM. The question is this: What the effect would be upon the southern producer if Liverpool were the only exchange to do the kind of business that you complain of? What effect would it have upon the value of cotton if Liverpool were the only exchange to trade in futures, and thereby dictate the price of cotton?

Mr. PARKER. Do you mean, if Liverpool were the only exchange, what would be the effect as contrasted with present conditions?

Mr. MENDELBAUM. Yes.

Mr. PARKER. I say, I do not think that——

Mr. LIVINGSTON. If we have the right to regulate or disband the New York Cotton Exchange for improper conduct, could we not do the same thing with Liverpool?

Mr. PARKER. Well, I am not a constitutional lawyer, Mr. Livingston.

The CHAIRMAN. The answer to that question would hardly be an answer to Mr. Mendelbaum's question.

Mr. PARKER. I will answer Mr. Mendelbaum in this way: Recognizing, as I do, the depressing effect of speculation on the New York and New Orleans exchanges, I feel that if those two exchanges were abolished there would continue to be some depressing effect through the existence of the Liverpool exchange alone. But I feel that the speculation on the Liverpool Exchange would not be anything approaching what it now is on the New York and New Orleans exchanges. Therefore, I think the general effect of the sole existence of the Liverpool Exchange, while it would be depressing to an extent, would not be depressing to the same extent as it is now with the three exchanges.

Does that answer the question?

Mr. BURLESON. Right on that point, before we leave it, I want to ask Mr. Mendelbaum if it is not true that New York futures frequently sell lower than Liverpool futures?

Mr. MENDELBAUM. The contrary is the case generally, for a whole year.

Mr. BURLESON. But I ask the question. Is it not true (and you can answer the question yes or no) that New York futures frequently sell lower than Liverpool futures?

Mr. MENDELBAUM. It is not true.

Mr. BURLESON. Do they ever sell lower?

Mr. MENDELBAUM. I think they have occasionally done so; but you say "generally," and I say it is not true.

Mr. BURLESON. In 1906, when the revision committee fixed the differences, did they not fix them so out of line that during that entire season Liverpool sold away in advance of New York cotton future contracts?

Mr. MENDELBAUM. That is probably the only time.

Mr. BURLESON. I do not ask you whether it was probably the only time or not. Was it true or not?

Mr. MENDELBAUM. It was true in that instance; but that is not a fair question. Excuse me, Mr. Burleson, you asked whether that is not generally the case, and you picked out a very exceptional year and a very exceptional circumstance. In 90 per cent of the cases, in eleven and a half months of the year, it is not true—absolutely not true; and the contrary condition prevails—that the New York market is the higher one. This is a matter very easy of proof.

Mr. BURLESON. Certainly it is.

The CHAIRMAN. Mr. Parker, I want to ask you a question. Mr. Mendelbaum, in asking his question, gave the impression that if all our future markets were eliminated, Liverpool, as the only future market for cotton, would fix the world's price of cotton. Where do you say the world's price of cotton is fixed now?

Mr. PARKER. My judgment to-day is that as a general proposition, the world's price of cotton is fixed by New York. That would be my opinion about it.

The CHAIRMAN. If that is true, how does it happen that spots are frequently higher than futures?

Mr. PARKER. It is because at all times it can not be done; but New York is having an effect on fixing the price just the same. She may not fix it accurately, but she is having an effect on fixing it. That is the very thing we complain of. We are willing for New York to fix it. We are willing for the law of supply and demand to fix it through New York. We are even willing for speculation to fix it through New York, if the rules are so arranged that there shall be such a parity between spots and futures that there can not be any illegitimate fixing of the price through New York. I am not afraid of New York's fixing it.

The CHAIRMAN. You have stated that spots are sometimes higher and sometimes lower than futures.

Mr. PARKER. That is right, sir.

The CHAIRMAN. And your complaint has been that there is not a consistent parity between them. That rather gave the impression to me that the actual price of real cotton was fixed by conditions or by parties entirely outside——

Mr. PARKER. It is, Mr. Chairman, in a way. If at any time conditions are such that the producer can revolt against the New York price and simply say: "I won't recognize the New York price; I won't sell my cotton at that price," the producer can do it. But you must recognize that certainly, up to a comparatively recent time, the South has not been in a condition to take that position. I hope she is going to be absolutely in position to do it, and I hope, even if we can not regulate the exchanges so that they will be fair, that we can put our people in such a position that they can say: "Here, I can warehouse my cotton; I am going to hold it there until I get a certain price which I agree is fair and remunerative." To do that requires us to get additional financial assistance in the South. During the last two years I have been to Boston time and time again, and in New York in a way, but particularly in the New England States, urging that inasmuch as the West, with its development and its increase of wealth, does not now demand those things from the East in the way of financial assistance which it formerly did, our eastern friends should transfer to the South their assistance, to enable the South to carry this commodity until it can market it fairly under the law of supply and demand.

Mr. BURLESON. Right on that point, is it not a fact that the farmers' organizations throughout the South are now adopting means to warehouse their own cotton? Are they not building up a system of warehouses all through the cotton section?

Mr. PARKER. I consider that the farmers' organizations in the South have been of the greatest assistance in the maintenance of prices;

and I think the method you suggest is one of the means they have adopted, and have properly adopted.

Mr. HARVIE. I should like to ask Mr. Parker a question. Mr. Parker, reference was made just now to the Liverpool market. If we should undertake by this legislation to prohibit cablegram communications of this kind with the Liverpool Exchange, as well as telegraphic communications with New York and New Orleans of this character, why would not that have the effect of protecting our people against Liverpool gambling?

Mr. PARKER. It would go very far toward protecting them.

Mr. HARVIE. They could not sell their contracts over here of that character, and they could not get in that sort of communication with the producers, or the people who could get the cotton from the producers, unless they were going to buy it and had the actual spots, could they?

Mr. PARKER. No, sir.

Mr. HARVIE. And therefore could we not, by international legislation of that character, get international protection as well as interstate protection?

Mr. PARKER. I think so. I will go further: I am satisfied, gentlemen, that the English spinner stands right with the American spinner on that proposition. If the speculation is going to be transferred to the Liverpool Exchange, and if the effect of a transfer of speculation to the Liverpool Exchange is the same as they say it would be, then I say to you with absolute assurance, as a spinner who is in constant touch with English spinners, that I know we can get together, and that our friends over there will do in England exactly what we are doing here.

Mr. MENDELBAUM. Mr. Chairman, one question——

Mr. CONE. One minute, Mr. Chairman. Do you not think you and I would have a picnic, Mr. Parker, in buying our cotton, if you could just stop trading in Liverpool?

Mr. PARKER. I do not think so, sir; no, sir. I hope and believe the time is going to come when the planter will give the mill his cotton just as the mill needs it, and not feel it necessary to dump it all on the market. I think that is coming. When that day does come, I think the planter is going to have a great deal more to do with fixing the price than he now has; and I do not think that "picnic," as my friend says, is going to come.

Mr. LEVER. Just one further question as a parting question. Mr. Parker has rather fully covered this matter, but I should like to get it in the form of a question. What would be the ultimate effect on producer and spinner of the abolition of the exchanges in this country?

Mr. PARKER. It would revolutionize, of course, the character of the present business. I would not sell ahead, as I now do, covering on the exchange, without having made absolute purchases of my cotton—spot cotton. But it would not affect me in my sales ahead. I would have to readjust my business, and I would readjust it and buy the spot cotton, put it in my warehouse, and carry it; or if I could find such a man as my friend Mr. Neville, with his financial backing, I might take a chance at him, and let him agree to sell it to me for delivery three, four, or five months afterwards.

Mr. LEVER. There would be no difficulty, then, in readjusting your business so as to meet it?

Mr. PARKER. I do not think so; no, sir. I do not think so. I have regretted exceedingly to have a condition arise where I felt that the exchanges had to be abolished. But I do say that if the exchanges do not respond to this just demand, then there is nothing to do except to regulate them. I do say that they have not responded, and, judging from the past, I can not hope that they will do so in the future.

Mr. LEVER. So, then, you would recommend legislation regulating the exchanges?

Mr. PARKER. That is my only hope.

In conclusion, gentlemen, I just want to read one paragraph from this report of ours of the year 1908, which expresses the view of the spinner. It is headed "Fair prices only desired" [reading]:

> It may be said in this connection that low prices of cotton, as also great variance in prices, in any season are altogether as much to the detriment of the spinner as they are to the planter himself. What is desired by both parties is a fair value to the commodity, allowing to the producer a fair profit in the raising and fixing in some measure a stable price upon which the spinner can calculate in making his sales. These two results can not be secured under present conditions on the exchanges, and particularly on the New York Exchange, and your committee does not feel that it can conclude its report without expressing its disapproval of the contract of the New York Exchange, and a sincere hope that the leaders on the New York Exchange will realize the defects of their contract and sincerely attempt to remedy the same. Under present conditions, the contract on the New York Exchange can be of value only to the speculator. It is not to the producer or to the manufacturer. It should be clearly borne in mind that the great mass of buyers of goods, particularly buyers for export, base their ideas of the value of goods upon contract quotations on the New York Exchange, and that these buyers are wholly misled, therefore, as to the cost of the raw material to the manufacturer. Being thus misled, it makes a constant effort on their part to secure prices on the manufactured article which are below what the manufacturer can possibly sell at. Under such circumstances, erroneous market quotations become a curse to the manufacturer and to the producer, and we feel that the New York Exchange must rectify its contract so as to make the contract responsive to the spot condition.

That is all we ask. If they will make their contract responsive to spot conditions, then we have no complaint to make. But they have not done it.

Mr. LEVER. What was the response of the New York Exchange to that appeal?

Mr. PARKER. We had a very pleasant gathering and enjoyed their social entertainment and talked over matters, and they made a report in which they undertook, recognizing the disparity between spots and futures, to provide for two methods of contracts—a spot contract and a nonspot contract; in other words, a legitimate contract and a nonlegitimate contract, from our view of it. We told them that was not satisfactory; that it would only exaggerate the difference between spots and futures. And therefore they have done nothing. That is practically all that can be said.

Mr. LEVER. They have done nothing?

Mr. PARKER. They have done nothing. That has been two years ago, and I can not hope to see a result which is going to effect any good.

Mr. SIMS. Suppose the rules of the exchanges were changed or amended so as to give the seller the option of delivering one-half the contract and give the buyer the option on the other half. If that could be made practicable, what effect would it have?

Mr. PARKER. It would bring spots and futures together so quick, sir, that you would not——

Mr. SIMS. Then would not that kind of an amendment to the rules be a solution of the whole question?

Mr. PARKER. That would answer all our purposes. If they let the buyer demand half, or let the seller at his option deliver the other half of whatever kind he has, I think they would very quickly get together.

Mr. SIMS. Why is not that a fair deal?

Mr. PARKER. In my judgment it is a square deal. Our very demand is for that—and we went further than that. In our demand we went so far as to say that we would give a quarter of a cent for the right to ask, and I will pay now a quarter of a cent for the right to ask a half.

Mr. HARVIE. If the chairman will permit me, what becomes of the producer? He would be still subject to all the fluctuations that come from gambling, would he not?

Mr. PARKER. The fluctuations from gambling are not troublesome provided the man has to deliver what he sells. If he is put up to the point of delivering what he sells, I am not afraid.

Mr. HARVIE. That would not be gambling if he is going to actually deliver it, Mr. Parker.

Mr. PARKER. No, sir; that is not gambling.

Mr. HARVIE. What I am speaking of is this: You said that if the rules of the exchanges were changed a little, it would answer your purposes. My contention is that if they are permitted to give out contracts or deal in contracts where there is to be no delivery, the evil is not reached at all.

Mr. PARKER. Well, theoretically, delivery is expected on every contract.

Mr. HARVIE. Yes; theoretically.

Mr. PARKER. If they once get to the point where I can demand that cotton, and not to be given whatever the seller chooses to give me, I can demand cotton sufficient to bring the futures and spots together.

Mr. BURLESON. You need not waste any time on that proposition, because neither one of the exchanges will ever adopt any such rule.

Mr. PARKER. I still have hope in mankind.

The CHAIRMAN. Are there any further questions?

Mr. MENDELBAUM. I should like to ask one question that I think was not brought out. Mr. Parker, you testified here that the tendency of the exchanges is to depress the price of cotton?

Mr. PARKER. On an average.

Mr. MENDELBAUM. How is it that the spinners, in their conventions, always complain against the exchanges for causing an advance in the price of cotton, the raw material?

Mr. PARKER. Well, sir, I have been to a good many spinners' conventions, and I have never heard of a complaint from a spinner to that effect.

Mr. MENDELBAUM. Did not the Englishmen, in the convention in Europe, complain?

Mr. PARKER. Oh, I do not doubt that the English spinner is always sorry when cotton advances. But I do not think even the English spinner is interested in the advance so much as he is in the violent fluctuations consequent upon speculation. So far as I have attended the spinners' conventions in America (I can only speak of America; I have never been to a spinners' convention outside of it), I have never heard any objection to the price of the raw material if that price

remains reasonably steady, so as to give us time to bring our goods to a parity with it. But just take even the last thirty days. Take print cloths now. We had brought print cloths to a parity with 15-cent cotton. I could make as much money three weeks ago off of 15-cent cotton as I could make a year ago off of 9-cent cotton. I was satisfied with the conditions. My New York friends suddenly sent the market down 3 cents when the conditions had not changed one particle. Spot cotton was no more spot cotton. There was every indication that it would be less than we expected, rather than more. They sent cotton down 3 cents. The result was that the purchaser of goods immediately said: "We will not buy your goods at the price we were willing to give you three weeks ago. We are not going to take them at this price, because cotton has gone down 3 cents a pound." And I can not convince them to save my life that it has not gone down 3 cents a pound. The result is that it upsets all trade; and the decline in goods to-day is equal to what was the decline in cotton futures, although spot cotton has remained constant.

Mr. LEVER. I understood you to say the 3-cent drop in cotton was not due to unusual conditions at all?

Mr. PARKER. I do not think anybody will contend that it was due to unusual conditions.

Mr. LEVER. It was purely speculative?

Mr. PARKER. Purely speculative.

Mr. MENDELBAUM. Do not the American spinners belong to the International Spinners' Association and attend their meetings?

Mr. PARKER. They do not belong to it in the sense of having any membership. There has been a delegate sent from the two different American associations to the gatherings of the foreign spinners.

Mr. BURLESON. Before we get away from that, I should like to see if I understood Mr. Mendelbaum exactly right. I understood you to say that the spinners have been uniformly against the practices of the exchanges; and you asked Mr. Parker why it was that they are complaining if it depresses the price of cotton?

Mr. MENDELBAUM. Do you want me to answer you now?

Mr. BURLESON. Yes. I understood you to say that.

Mr. MENDELBAUM. You misunderstood me.

Mr. BURLESON. That is the way I understand your question of Mr. Parker—why the spinners were uniformly against these practices if they depressed the price of cotton?

(By request the stenographer read aloud the question referred to, as follows:)

Mr. MENDELBAUM. How is it that the spinners, in their conventions, always complain against the exchanges for causing an advance in the price of cotton, the raw material?

Mr. NEVILLE. That is not your question, though.

Mr. PARKER. I shall be very glad, indeed, to furnish the committee with a copy of this report which we made two years ago on the question of exchanges, so that you may see the full position taken by the American Cotton Manufacturers' Association at that time. I will say that that position was simply a reaffirmation of the position taken two years prior to that, in 1906; so that the spinners of America as represented by the American Cotton Manufacturers' Association, have certainly been on record for a number of years in this regard.

The American Cotton Manufacturers' Association has a thousand or more members. They represent about evenly the North and the South. My recollection is that there are about 550 members from the North and 550 members from the South. So that it is certainly an association which is representative of the spinning industry. You will find, for instance, in this book, a list of the members; you will find that they cover every State in the Union in which there is cotton spinning; and that was the sentiment of our association.

The CHAIRMAN. We shall be very glad to have that volume left on file here. Just one further question to see that I have your position clearly: I understand your position to be that the spinners are not complaining particularly because cotton is depressed on the one hand or advanced on the other, but because of the fluctuations claimed to be due to the practices of the exchanges?

Mr. PARKER. I will modify that in this way, Mr. Chairman: The spinners do not complain of high prices as much as they do of irregularity of prices. The irregularity of prices, in our judgment, is largely due to the speculation through the exchanges. In other words, to take the past season, I recognize the fact that there was a legitimate gradual increase of value of cotton, because in the beginning of the season we started out believing there were going to be 12,000,000 bales. A little later we dropped our opinion to 11,000,000 bales. We have dropped our opinion now so we think the crop will probably not exceed ten and a half millions, if so much. And therefore, as we have had to lower our opinion as to the size of the crop, we recognize this increase in value. But what we do object to is when, on January 16, for instance, the Government came out with its report and showed the crop to be even shorter than the world had expected, and even indicated a reduction from the December report, that there should have been, notwithstanding that fact, a sudden reduction of 3 cents a pound in the contracts not responded to in the spots, which reduction in the contracts had the effect of demoralizing the trade over the whole United States, and I think I may say over the whole world.

The CHAIRMAN. I think you make your position very clear. Are there any further questions?

Mr. BEALL. Taking conditions as they exist this year, do you believe the cotton producer of the South has realized as much for his cotton under present conditions as he would have realized if it had not been for this speculative feature?

Mr. PARKER. Yes, sir; I think the cotton producer this year has realized, through the effect of speculation, more than he would have realized if there had not been speculation.

Mr. BEALL. Is this year, in your judgment, an exceptional year? Or would that rule apply to the average run of years?

Mr. PARKER. It is an exceptional year. There has not been a year like this year almost since the memory of man; certainly not since the average spinner who is now spinning has been spinning. I do not recollect any other season where cotton has advanced steadily through the four months; do you, Mr. Neville?

Mr. NEVILLE. Oh, yes.

Mr. MENDELBAUM. 1899, 1900, 1901——

Mr. PARKER. Not to the same extent that it has this year. This is the first time you have had 15-cent cotton, certainly since I began spinning. I began spinning in 1897. You had it in February——

Mr. HUBBARD. May I ask Mr. Parker if he recalls that cotton sold in August of 1900 at 5¾ cents?

Mr. PARKER. Yes.

Mr. HUBBARD. And in May it sold between 11 and 12 cents?

Mr. PARKER. Yes; I recall that cotton sold, as Mr. Hubbard says, in August of one season at 5¾ cents. That happened to be the first season I manufactured; in the season of 1898. My average price of cotton that year was 4¾ cents; the next year my average price of cotton was 5¾ cents; and yet they were the two hardest years I have ever had in manufacturing since I have been in business. The price of print cloths and the price of goods generally was even below the parity of cotton that year.

Mr. BEALL. What special reason was there for that difference?

Mr. PARKER. That was simply due to the demand of the trade. There had been a very large crop made.

Mr. HUBBARD. Was it not due to the fact that the crop of 1899–1900 was a remarkably small crop?

Mr. PARKER. Mr. Hubbard, of course you follow those crops more carefully than I do. I can not speak offhand. I accept your statement.

Mr. HUBBARD. Was it not also due to the failure of the cotton crop in Bombay?

Mr. PARKER. There was certainly a legitimate reason for it. Spot cotton would never have risen in the succeeding May to 11 or 11½ cents unless there had been a mighty good reason for it. I should say generally that it rose notwithstanding the exchange, as a general proposition, rather than on account of the exchange; though this year I make an exception.

Mr. BEALL. Take an ordinary year, the months of October and November and along at that season of the year, when the crop or a considerable portion of it is still in the hands of the producer. What is the ordinary rule?

Mr. PARKER. The ordinary rule is that the price is depressed in the fall months. That is the ordinary rule. I think, though, that as long as our southern planters continue to market too large a proportion of their product in those months, they must expect that to a certain reasonable extent.

Mr. BEALL. Take the instances that you can recall, when there has been a very considerable advance in the price of cotton as the result of speculation. At what season of the year has that generally occurred?

Mr. PARKER. It has ordinarily occurred in the early spring—January or beyond.

Mr. BEALL. Where was the cotton with reference to the producer at that time?

Mr. PARKER. It was out of the producer's hands. And I will go further——

Mr. HUBBARD. May I ask right on that point if Mr. Parker is speaking from memory, or whether he is speaking from records?

Mr. PARKER. I am speaking from memory, and I expect from a faulty memory.

Mr. HUBBARD. I think that if Mr. Parker will examine the records he will find that the price of cotton in New Orleans is, as a rule, lower

on the 1st of May than it is on the 1st of December. (I speak of New Orleans because that comparison was made by Mr. Hester, and New Orleans is Mr. Parker's favorite market.) He will find, I think, if he examines it carefully, that eleven years out of fourteen the price of cotton in New Orleans on the 1st of May is the same or lower than it is on the 1st of December. That is a matter of record, and was a matter of record before the Agricultural Committee as long ago as 1891, when I had the honor of appearing before it with Mr. Hester.

Mr. PARKER. That may be true, gentlemen; I would not undertake to deny it. I will also tell you what is true of myself as a spinner—that I follow the course of, I think, a majority of the spinners, and I buy my cotton in the fall.

Mr. BEALL. Because you get it cheaper.

Mr. CONE. May I ask Mr. Parker a question? Do you not think, Mr. Parker, that there has been a larger percentage of this crop marketed in October, November, and December than any crop that has ever come under your observation?

Mr. PARKER. That is my judgment. That is the reason why I said I thought a man would be doing a very perilous thing this year to sell ahead without having the spot cotton.

Mr. HAUGEN. I understood you to say that if boards of trade or dealing in futures were eliminated, it would necessitate the building of warehouses by the spinners to store their stock of cotton for the year?

Mr. PARKER. It probably would necessitate our enlarging our warehouses; yes, sir.

Mr. HAUGEN. How would that affect the smaller spinners—those without capital or financial standing?

Mr. PARKER. My experience with the smaller spinners is that the large majority of them do not buy very much ahead, even now. It is the larger spinners who have to buy ahead. The smaller spinner, as a rule, certainly in the South (I am speaking of the smaller spinner in the South), does not anticipate his needs. He takes his chances on the market.

Mr. HAUGEN. This would necessitate the spinner making large contracts for future delivery if he bought cotton at that time?

Mr. PARKER. As a rule, yes, sir; that would be the only right thing to do.

Mr. HAUGEN. Under the present system does not the smaller spinner buy for future delivery through these boards of trade?

Mr. PARKER. I do not think he does. I simply say that as a rule the smaller spinner does not buy ahead, does not anticipate his needs in the same way that the larger spinner does. Using as many bales of cotton, for instance, as I do, I am afraid to take the risk of getting my cotton around me unless I have it absolutely in the warehouse. The smaller spinner is going to use only a few hundred bales in the course of the season, and he is willing to take a risk that I can not afford to take.

Mr. HAUGEN. Do you sell for future delivery?

Mr. PARKER. I sell my goods for future delivery.

Mr. HAUGEN. Nearly all spinners do?

Mr. PARKER. Yes.

Mr. HAUGEN. The smaller spinners as well as the large ones?

Mr. PARKER. They differ in their policy, but they do sell more or less.

Mr. HAUGEN. The smaller spinners as well as the large ones?

Mr. PARKER. That is right; yes, sir.

Mr. HAUGEN. The smaller spinner, selling for future delivery, without ready cash or financial backing, would be unable, then, to make contracts for future delivery? He would be unable to get the stock?

Mr. PARKER. He would be unable to make contracts for future delivery of the character he now makes. In other words, he would not buy his cotton on the exchange—although, as I tell you, I do not think as a rule he now buys it on the exchange. What he does is to buy it from a cotton dealer, such as my friend Mr. Neville. He would not be cut off from that.

Mr. HAUGEN. And the dealer, in turn, hedges?

Mr. PARKER. The dealer, in turn, hedges now; yes, sir.

Mr. CONE. Mr. Parker, was it not your experience last spring and summer that the farmers held cotton for fall delivery more largely than you had ever known them to do before?

Mr. PARKER. Yes, sir; and they made a very serious mistake.

Mr. SIMS. I should like to ask Mr. Parker a question. There seems to be an impression that without future dealing we would have to have warehouses to take care of the cotton. Do we not now have to have warehouses to take care of it?

Mr. PARKER. I think that if the effect of doing away with the exchanges would be to have warehouses to take care of all the cotton, it would be worth many, many times any possible harm that would come from the abolition of the exchanges. Unfortunately, too many of our planters now let their cotton stay out in the weather right through the winter, and do not warehouse it. If, by the abolition of the exchanges, we could force them to a condition where they would warehouse their cotton, it would be the best thing in the world for all of those interested in cotton.

Mr. SIMS. But it is a fact that there are warehouses to take care of cotton now?

Mr. PARKER. There are; and the most intelligent farmers are now learning to avail themselves of them.

Mr. MCLAUGHLIN. Who do you mean would build these warehouses—the planters or the spinners or the manufacturers?

Mr. PARKER. The spinners would build a large portion of them. But what is going to come eventually is a condition under which either the planters themselves will build the warehouses or the warehouse companies will build them in order to do a regular warehousing business. I appeared before the legislature of South Carolina last week earnestly urging the passage of this uniform warehouse bill, which has been proposed by the different States, so as to give our people a chance to get a warehouse receipt which will be marketable in New York, Boston, in Providence, in Chicago, and everywhere else. What is going to come—and it is not very far off, either—is that we are going to have in the South warehouse companies just like you have elevator companies in the West.

The CHAIRMAN. Have you those companies to any extent now?

Mr. PARKER. I, myself, am connected in a small way with one company—the Standard Warehousing Company, of South Carolina—

which has a capital stock of $500,000, I believe it is, or in that neighborhood, and which does a storage of about 90,000 bales.

Mr. BURLESON. Is it not a fact that during the last three years there have been about two thousand of them built?

Mr. PARKER. Yes; there are a great many small warehouses being built all around.

The CHAIRMAN. Is it the practice of those warehouse companies to receive the cotton and charge so much a month for warehousing it?

Mr. PARKER. That is right.

The CHAIRMAN. Or do they advance a certain portion of its value?

Mr. PARKER. There are different methods pursued. They all charge for the storage. Some make an advance upon it directly. The general method, though, is that they give a warehouse receipt to the farmer. Once we get capital assured of the safety of the warehouse receipt, and that the cotton will be kept there until it is needed, and the receipt can be hypothecated in the banks at a reasonable rate of interest, the effect has been (and I think Mr. Burleson will bear me out) that in the last three years the rates of interest on cotton collaterals have declined very greatly in the South. I have been able, myself, to help in placing loans for farmer friends this past season as low as 5 and 5½ per cent and last season as low as 4½ per cent, whereas in the South, previously, our rates have been 7 and 8 per cent.

Mr. McLAUGHLIN. You were asked a question by Mr. Cone as to whether, if the exchanges were abolished, you would not "have a picnic buying your cotton." You answered the question, evidently understanding it. I did not get the force of it. If you understood his question sufficiently to have an opinion as to what the outcome or result would be, I should be glad to hear it.

Mr. PARKER. What Mr. Cone meant was this: His idea was that if the exchanges were abolished the only purchasers would be the spinners; that these intermediate men that now purchase and hedge on the exchanges would be afraid to do that business, and that therefore only the spinners would be left as purchasers.

Mr. McLAUGHLIN. The producers would be at the mercy of the manufacturers?

Mr. PARKER. Of the spinners; that was his suggestion. I do not agree with that suggestion. I think there are two ways in which that is going to be avoided, though I recognize that temporarily there is going to be a certain amount of readjustment necessary. One way is, as I have undertaken to explain, that there will be built up this warehouse system, by which the South will realize the necessity of storing its cotton and marketing it gradually, so as not to give the spinners that advantage. I am assured that there is going to be a steady, continuous growth in that direction. The other reason is that as long as there is any commodity like cotton on the market men like my good friend Mr. Neville (I have used his name a number of times, as he is one of the largest of the intermediate men) will buy just as much as they do now, especially if it goes beyond what they think is below the average of prices. So I do not think Mr. Neville will have the "picnic" my friend Mr. Cone would expect him to have. I certainly do not advocate this legislation with any view of that "picnic," because I take exactly the other view.

Mr. CONE. Let me ask Mr. Parker a question there: Mr. Parker, do you think a bank, in the first place, would lend money on cotton, or lend the money that would be needed to start with, with the consciousness that the dealer it is lending to can not hedge his cotton? Would that dealer handle that cotton as he does now for 25 or 50 cents a bale? Would he handle it for less than $5 a bale? Would you buy cotton and put it in your warehouse unless you felt that you were getting enough off the price to guarantee that you were going to get good interest and carrying charges out of it?

Mr. PARKER. As I said a moment ago, I think that in all probability the business would be temporarily complicated through the abolition of the exchanges. It is a pure question, take it all in all, of the pros and cons. To-day the cons overbalance anything which can be said for the pros. I recognize the very suggestion made by my friend, that, temporarily, until the South can readjust itself to a condition of marketing its crop only as needed by the spinners, there would necessarily be a certain amount of depression in the sale of the commodity, and possibly an extortionate profit given to the intermediate man. Let me take a case under the present exchange rules, and see whether the intermediate man has not at times made an extortionate profit.

The intermediate man who bought cotton in January, and who sold it a week ago or ten days ago, made a profit of about $10 a bale, or about 2 cents a pound. I think that is an illegitimate profit, and I think it was made through illegitimate conditions. If he hedged his cotton when he bought it in the first week of January, and if he let his hedges go and sold to the spinner at the price he was charging the spinner a week or ten days ago, he made a profit of $10 a bale. If my friend Mr. Neville will allow me, I will give you one illustration which affects his own firm. I was very anxious to get a certain lot of cotton of 300 bales for one of my mills when cotton futures were 16½ cents, and I just stubbornly said I would not pay over 14½ cents for it. I was offered that cotton at 14¾ cents at that time. Cotton futures declined 3 cents a pound, but I never got that cotton cheaper than $14\frac{5}{16}$ cents. In the meantime the intermediate man who had bought cotton and had hedged it by the futures got the benefit of the decline of 3 cents a pound in futures, and only suffered a loss in the spots he had bought of the difference between 15 or 15½ cents, which he said it cost him, down to $14\frac{5}{16}$ cents.

Mr. NEVILLE. You are assuming that the man who bought that cotton got a lot of cotton which you wanted. We do not operate in that class of cotton.

Mr. PARKER. I am assuming that he hedged.

Mr. NEVILLE. You are assuming that he hedged at 16.486, which was the highest point May cotton reached.

Mr. PARKER. That is right.

Mr. NEVILLE. And you are assuming that he took his hedges out at the lowest point.

Mr. PARKER. That is right.

Mr. NEVILLE. Those are two assumptions.

Mr. PARKER. I will preface that by this statement; I wish to make it clear now. If, on the day that futures were highest, he bought cotton and hedged it, he did not pay at that time over 15 to 15¼ cents, because the producer never got, this last season, over 15 to 15¼ cents.

Mr. NEVILLE. You are only talking about your character of goods. If you take staple cotton you will see that it ruled from 1 cent to 2 cents a pound higher than your character of goods.

Mr. PARKER. I am going to compare them.

Mr. NEVILLE. If you are going to compare staple cotton, do not compare it with your character of goods.

Mr. PARKER. No; but the very cotton I bought was raised right in South Carolina. That very cotton that I offered $14\frac{1}{2}$ cents for, and the man finally offered to me for $14\frac{3}{4}$, I bought at $14\frac{5}{16}$ cents, or a difference, you see, of not quite half a cent a pound, and in the meantime futures had changed 3 cents a pound.

Mr. NEVILLE. Mr. Parker, was that cotton hedged?

Mr. PARKER. Yes.

Mr. CONE. Allow me to take issue with you just one moment, sir. You can get evidence of what I am going to tell you. I will tell these gentlemen a very remarkable thing. In the spot-cotton end of my business I try to buy cotton when it is high; I try to sell it when it is cheap. To illustrate what I mean: Instead of paying 15 cents, as you say, I have bought cotton when the market was at the top; I have bought a thousand bales of cotton from the firm of Weil Brothers, at Montgomery, Ala., and I have bought cotton from A. P. Loverman, of Tuscaloosa, Ala., that I paid them $16\frac{1}{8}$ cents for—strict middling cotton.

Mr. PARKER. But they were intermediate men. I am talking about the sale to the producer.

Mr. CONE. But, Mr. Parker, in answer to that, let me say that Mr. Loverman is a man who handles about 60,000 bales of cotton per annum, and has handled it for years and years; and I do not suppose he has $50,000 to his name to-day. But in the case of the illustration I wish to make, that I sold futures against, I was glad to get the cotton. I regarded it as too high, altogether too high; but I bought it because I could hedge it. I sold futures against that cotton at 16.43, and I was able to sell you cotton, when the market went down, cheaper than anybody else.

Mr. PARKER. That is right. That is the very point I made, gentlemen. That is the very thing I said he did—that he was able to buy the spot cotton even from the intermediate man. Weil Brothers had already bought that spot cotton. The producer never got any $16\frac{1}{2}$ cents. The producer probably did not get over $16\frac{1}{4}$ cents for that cotton. He bought from Weil Brothers at 30 points under the futures; and if he did like some of the rest of my friends he sold to the spinner at 100 points on futures.

Mr. CONE. I will give you the reverse case: Right at the same time, sir, right when they had this big smash here through an over-extension of speculation (which I regard as a question of ethics and morals, and not one of commerce), right at the time of that break, I sold cotton to mills around me a great deal cheaper than the farmers would.

Mr. PARKER. That is right.

Mr. CONE. Here is where it helps the farmer: I just had to quit selling, I sold so much. I sold them cotton around $14\frac{1}{2}$ and $14\frac{5}{8}$ cents when the farmer away down South was asking me 15 or $15\frac{1}{4}$ for it.

Mr. PARKER. That is right.

Mr. CONE. And why? Because I could buy more of those high futures; and during that summer I was just simply giving it away around 13⅝ cents. I bought a lot of it at 13.63. Now, I have not bought a bale of that cotton yet.

Mr. PARKER. Yes.

Mr. CONE. I sold clean up to July. What will be the result? I have got to go to these gentlemen, and I do not care what they charge me for cotton. I believe I will pay 20 cents for some of that cotton. That is my honest conviction. I will be glad to do it. I sold the mills cotton for less than I could buy it for; and I am going to take it to the mills, and I will probably pay 20 cents a pound for some of the cotton; and then, when I buy the cotton from these gentlemen, I will sell my futures.

Mr. PARKER. There is no difference, gentlemen, between Mr. Cone's statement and mine. He has just exactly confirmed my statement—that by that method of hedging he was able to knock out the producer entirely. And while I admit very frankly that it was a good thing for the spinners—I admit that that break the other day enabled many of us to get in on a basis we never hoped to get in on—at the same time it was a bad thing for the producer; and the spinners really are not going to make anything out of it, because that break has so demoralized the cotton-goods market that I would rather have given 15 cents for cotton three weeks ago than to give 14 cents for it to-day.

The CHAIRMAN. We are very much obliged to you.

Mr. LEVER. It has been suggested that if you abolish the exchanges the only purchasers of cotton will be the mill men, and it will not be a very long time before there will be a great mill trust throughout this country which will control and fix prices of cotton. I would like to have your judgment about that.

Mr. PARKER. So far as I know a trust only arises under two conditions: First, when a man has got enough of a business and wants to sell out and is willing to have somebody else make whatever money there is in it out of it. Most of us in the cotton-mill business in the South are young men who have not made our pile and are going to stay in there until we make something out of it. Outside of that, I regard a trust in cotton-mill manufacturing as an impossibility. There are too many styles of goods and too many grades of goods and there is too much characterization of goods to make a trust possible.

Mr. LEVER. You would not consider that there was any danger of that?

Mr. PARKER. I would not say that there was the least danger of it.

Mr. NEVILLE. Referring to your association of manufacturers, you have stated in your recommendations to the Cotton Manufacturers' Association that the cotton exchanges should fix the price running through several grades, strict middling, low middling, and fair. You recognize, of course, that the basis of contract should be such as will take care of the grades that nature enables the farmers to raise?

Mr. PARKER. That is right.

Mr. NEVILLE. Take the crop of 1906 and 1907, where you practically had a 14,000,000-bale crop raised with an average grade, I dare say, of low middling; over half the crop raised that year would have been debarred from any contract. How low do you think those lower

grades would have sold to the trade that would have been the only buyers for them?

Mr. PARKER. If I understand the result of that question, you hold that the exchanges are the only places where the low grades can be delivered?

Mr. NEVILLE. I hold that their contract by experience provides for the delivery of cotton of spinnable cotton that nature enables the producer to raise, and any basis such as you ask the exchanges to adopt would have only resulted in one thing, namely, the disorganization and the bankruptcy of everybody connected with the cotton business; not to such a large extent with the spinners, but to every other interest in the trade.

Mr. PARKER. Gentlemen, all I can say is that I take issue right there with my friend Mr. Neville. In that particular season he will bear me out that at the very time that the strict middling cotton in the South—which is an average grade used by spinners—was selling in the South at 12 to 12½ cents, cotton futures were selling in New York at 9.50. Why? Because under that rule of cotton futures they could apply these very low grades, and the spinner ran away from these very low grades; and therefore my friend would have the condition in which the great mass of cotton is depressed, in order to take care of these low grades. He and I will agree that this year there is not 10 per cent of the cotton below low middling.

Mr. NEVILLE. I do not know about that.

Mr. PARKER. Not 10 per cent below low middling, and yet on the average it is that 10 per cent of those low grades that will fix the price on the exchange as a whole.

Mr. NEVILLE. I will not cite the New Orleans Cotton Exchange, because that seems to be debarred from discussion, but take New Orleans and Liverpool, where you have the system of differences known as commercial differences; take the basis middling price of those markets, does it rule close to the price of spots?

Mr. PARKER. Reasonably close.

Mr. NEVILLE. Well, take the two seasons that have been spoken about in this discussion, what do you say about the difference between spots and best middling?

Mr. PARKER. Take those two seasons; on the basis middling contract, even where it was based on the market differences instead of the fixed differences in New York, they got pretty far apart. They were not so far apart in New York as in New Orleans, but our association has not expressed approval of the New Orleans contract, absolutely. We think it is better than that in New York, but we claim there that in New York it is unfair to both spinner and producer; that this low grade should fix the price of the whole, and our view is to-day that there ought to be deliverable on the contract only a class of cotton which represents the great mass of the cotton which is spun; and the great mass of the cotton, 80 or 90 per cent of the cotton that the spinners in the United States or the world—certainly in the United States—use now is middling and strict middling, and therefore to allow the low grades, whether in New York or anywhere else, to be a depressing factor to affect the price of all the cotton is to allow the tail to wag the dog, and it is the tail which is wagging the dog on the exchanges all the time.

Mr. NEVILLE. That is a debatable question which we will present when it comes our turn.

Mr. PARKER. Well, I was simply expressing my opinion.

Mr. NEVILLE. You are taking this year's crop, which is an unusually high-grade crop.

Mr. PARKER. Last year was not a high-grade crop.

Mr. NEVILLE. Yes; but the proportion picked in the field after the 1st of December last year was greater than the proportion in any season that we have had that I can recall.

Mr. PARKER. Yes.

Mr. NEVILLE. Now, this year all your crop, or practically all your crop was picked by the 15th of December, before any bad weather came to reduce the grades.

Mr. PARKER. Yes.

Mr. NEVILLE. Consequently this year you have got an exceptional crop in two ways: you have a crop that has not as good spinning value as last year's crop, so far as the staple is concerned, but you have the highest grade average crop that you have had in the history of the cotton trade; so that you can not take this year's cotton crop to support your contention for a low middling contract for middling and fair. Why? Because it is not the season you have got to provide for, but you have got to provide for the grades that God Almighty enables the farmers to make.

Mr. PARKER. And yet, Mr. Neville, it is a curious coincidence that it happens that the very year you say there was a preponderance of high grades, and therefore there should be less low grades to deliver on the exchange, is the first year that the South has got a good price in the fall for its product.

Mr. NEVILLE. I differ with you.

Mr. PARKER. It is a singular coincidence, I say, that the very year that there were no low grades to deliver is the year that futures were not depressed and the very year that the price of spot cotton was the best.

Mr. NEVILLE. We will produce evidence to the committee to show them that the contrary was the fact; we will produce facts, and not theory. And now on that question of differences, referring to the report of Mr. Herbert Knox Smith, and by the way, gentlemen, I want to say that Mr. Herbert Knox Smith's treatise on prices is a masterpiece, theoretically; practically, the working out of some theories he advances is one that is of extreme difficulty and impracticable; we will dwell on that later. Mr. Parker, the Liverpool cotton market, as we who are actively in the trade know, and according to Mr. Smith's report, is the most classic commercial-difference market that there is in existence. In the Havre market they have arbitrary fixed differences between grades, based on the presumed spinning value of those grades. In Liverpool the prices are fixed by the law of supply and demand, so called. Now, in Liverpool in 1906-7 and in 1907-8, with the most classic commercial-difference system in the world, in that market with the most classic commercial differences, the difference between the price of low middling and good was [illegible] points. They are a buyer's market; they have no regard for the producer of cotton, nor for the man who has the cotton to sell, and it is the man who buys the cotton that fixes the price to meet his own particular idea.

Mr. PARKER. At the same time in New York it was 150.

Mr. NEVILLE. Two hundred and twenty-eight.

Mr. PARKER. Two hundred and twenty-eight. And further, gentlemen, do not forget that I have never contended that the change from arbitrarily fixed differences to commercial differences is going to do away with all difficulty. The New Orleans Exchange has got the commercial differences. We say that they should not allow these low grades, this trashy, dusty cotton, and cotton that can not be spun to come in there, and as long as it does you are going to have this condition, and you are going to have the low grades fixing the price of the whole. The spinners' request is as follows. We ask:

Cotton to be of any grade from low middling to fair, inclusive, and if tinged or stained, not below low middling (fair color) in value.

Price to be based on middling, with additions and deductions for other grades to be made according to rates of cotton exchange existing on the afternoon of the day previous to the date of notice of delivery

No certificate of classification to embrace qualities more than four quarter grades above or below the mean grade of the cotton covered in such certificate.

No dusty or gin-cut cotton to be deliverable, dusty cotton being defined as cotton lessened in value more than one-eighth cent by reason of dust.

No cotton containing more than 1 per cent of sand, or more than 1 per cent of burr, or more than 1 per cent of any other foreign substance to be deliverable under the contract.

No cotton to be deliverable under the contract unless 80 per cent of said cotton has a staple over eleven-sixteenths of an inch in length, as determined by the classification committee.

At one time, I believe, linters were delivered; they were down so low you could not distinguish them from linters.

Mr. NEVILLE. No.

Mr. PARKER. They were offered me. I saw cotton with my own eyes that I do not hesitate to say was as rotten as cotton could be, and yet it was deliverable and was delivered on the New York Exchange. That has been rectified now. I see that the New York Exchange responded to the protest against that, and rectified it. Eleven-sixteenths of an inch in length is the minimum length that the spinners use in this country. What right have they to allow a man to put anything less than eleven-sixteenths in deliveries to be fixed? They have got their fixed differences. But that is only one trouble. If they will just put a contract there that will enable the cotton spinner to get cotton that he can spin, I am not afraid——

Mr. CONE. You are speaking of that low-grade crop year. Was not the stock of cotton in New York one of the largest stocks you have ever known to be gathered in the market?

Mr. PARKER. Yes, exactly; because every bit of cotton of a low grade gravitated to New York.

Mr. CONE. Was it not of immense value to the South that New York should finance that cotton? Was there not such a preponderance of that grade of cotton grown that year, all the way from Georgia to Arkansas, that the South if it had had to finance it itself would have been in great distress; and did not New York become the banking center for that cotton, and carry that cotton until the following season, when it not only ceased to be poor cotton but became good cotton, and the whole world bought it, even including myself? I went to New York and brought some of that cotton back down South.

Mr. PARKER. I will only say that if the South is satisfied to have the best part of its products depreciated to give a value to a small

part—and that year a large part—and not only that year but the succeeding year and the next year after that, by depreciation, by the fact that there was a lot of this low-grade cotton there on the market to be tendered, why, it is mighty poor judgment. What we want is to have cotton in New York to be of the same quality as cotton elsewhere, and not to have this low-grade cotton used as it is to depreciate the price of all the rest of the cotton because of the accumulation of a stock of low grades in New York.

Mr. BEALL. Some reference has been made here to certain abnormal conditions that prevailed in 1906.

Mr. PARKER. Yes.

Mr. BEALL. I want to ask you if, in your judgment, the New York Cotton Exchange was to any extent responsible for those abnormal conditions? In that connection Mr. Neville paid a tribute to this report of Herbert Knox Smith, and I want to read this extract to you:

> This revision of 1906 and its consequent loss caused intensely bitter feeling in the cotton trade. Dissatisfaction was aggravated because of a well-founded belief that some members of the revision committee were short of the market at the time the revision was made and thus reaped heavy profits from the subsequent fall in the contract price, and that others were carrying considerable stocks of low-grade cotton which they could, by reason of the unduly narrow differences off for such grades, deliver on contracts at an overvaluation. Charges were freely made that members of the revision committee had deliberately abused their trust and had, in their own interest, established differences which they knew to be false.

Mr. PARKER. I do not make the charge, and I would not make it. It seems to me there is no doubt that the charge was made. It is also true that the meeting was held in New York. The storm had taken place in September or early in October. Therefore the per cent of low-grade cotton was known, or reasonably well known, in November; and yet the differences were so fixed, the arbitrary differences, that those low grades were not near what commercial differences fixed them, and there was a charge of interested parties. I do not make such a charge.

Mr. BEALL. Is it your opinion that there was anything wrong in the differences as fixed?

Mr. PARKER. I think the differences were wrong. I will not say or intimate for one moment that the differences were fixed on anything except honest differences of opinion. The differences certainly proved wrong, because it had the effect, a little later in the season, of making a difference of 228 points—I said 150, but Mr. Neville says 228—between the price of middling and the price of contracts, which I think showed that they were very wrong in their differences; and there was no question about it that they made a great mistake in opinion, putting it on the best plane, as I most carefully do.

Mr. MCLAUGHLIN. I want to know why a man will make a contract to buy a quantity of cotton, calling for a good quality, when he knows that poor quality can be forced upon him?

Mr. PARKER. He does not; that is the point. Therefore he runs away from the delivery; and if they will modify their contract so that I can take delivery, I can put that contract up to futures. But I run away from it. I would rather take my loss of 1 or 2 cents than to have undesirable cotton put upon me.

Mr. COCKS. I do not see why, as Mr. McLaughlin says, a man will make a contract of that kind when he knows that a poor quality of cotton can be forced upon him.

Mr. PARKER. He does not make that kind of a contract, because he can not.

Mr. COCKS. Why do you make a contract at all, if you do not know what kind of a contract you are going to get?

Mr. PARKER. That is about the point I am arguing now. If we can not get the New York contractor to give us a contract so that we know what we are going to get, it is time to abolish the exchange.

Mr. BURLESON. If he took deliveries there would not be so many commissions, maybe. It is because of the commissions; it is to the interest of the exchange to have as many commissions as possible.

Mr. COCKS. Could you not buy cotton elsewhere and eliminate the New York Cotton Exchange?

Mr. PARKER. I have tried to do that, and what was the effect? I bought from as responsible a firm as there was in the United States. I bought their futures. They hedged themselves on the New York Exchange. They failed. I might as well have taken my own losses on the exchange. It is because I do not know what to do. If I hedge, if I protect myself by buying from the ordinary dealer, I know what he is going to do; he is going to protect himself by buying on the exchange. Therefore if the losses come so as not to protect him, he can not respond to his promise to me, so that I am the loser in the end. I do not know just what to do. If I buy on the exchange I lose and if I buy from the dealer I take the chance of loss.

The CHAIRMAN. The idea his question suggested to me was the query why, if you are not satisfied with the present operations of the board of trade, you do not buy your cotton in the warehouses.

Mr. PARKER. I am glad to say that I have to-day every bale of cotton in my warehouses which I will need to run me until next October, so that I am not worrying at all. But take it last April; it is true we have got into the practice of using the exchange and using the intermediate man. Take it last April, when I sold that big sale, carrying my mill from January, 1909, to January, 1911. I could have gone out and bought spots if there had not been exchanges, and we hope that things will be all right, and therefore I use the exchange or the intermediate man who did use the exchange; it is the same thing in the end.

Mr. COCKS. That would require a great deal more capital?

Mr. PARKER. That would require a great deal more capital; yes. But still, I am glad to say, that particular mill I could have done it with; but I would have had a loss and a locking up at that particular time. Just at that particular time, to illustrate to you, if I had pursued that particular practice, right at that particular time spot cotton was then selling in the South at 9½ cents. I made my contracts for delivery in the fall at 9⅝, just ⅛ up for what I would have had to pay for spots. If I had carried the cotton from April to next November, when I was buying the other cotton, I would have been out a good deal of money in interest and charges; therefore it was better for me to buy that way.

Mr. COCKS. Your idea is that when this warehouse proposition gets in shape you can buy this cotton from the warehouse as you need it?

Mr. PARKER. As I need it, and as the farmer thinks it is the price for him to dispose of it.

Mr. COCKS. Then it will be a question between you and the specu-ator on the exchange?

Mr. PARKER. Yes; that is it.

Mr. CONE. Take the man who sold you that cotton for delivery months and months ahead; if he had not been able to hedge himself, ould he have possibly sold you the cotton at anything like that rice?

Mr. PARKER. No, sir. That is the reason I have said, in all sin-erity, there were certain good effects from the exchange. There is o question about that. He could not have sold me at 9⅝ if he could ot have hedged on the exchange; and the fact that he could, enabled im to sell me. He would not have sold those goods ahead if he had ot been able to hedge, and I admit that it would have changed my ourse of business. But I would rather have the change in the course f business than take the risk I am now taking.

Mr. CONE. You admit there is a certain amount of risk, anyway?

Mr. PARKER. Yes.

Mr. CONE. Would you not put the market in New York so that it ould be cornered by any man with a few millions?

Mr. PARKER. No; not if you will do what we ask you to do. We ecognized that possibility, and therefore we say as follows:

> If it be contended that such a requirement would tend to manipulation in making practicable for buyers to squeeze sellers, then your committee feel that a further rovision would wholly eliminate this possibility, namely, that a provision should e made for the certification of cotton in standard warehouses in the cotton-producing tates, and that delivery may be made on contracts of cotton in these standard ware-ouses, with a proper allowance of freight to the exchange point.

I do not claim that that cotton must necessarily be in New York. et us standardize our warehouses and put the cotton in the ware-ouses there, and if a squeeze takes place in New York during the otton season we can get 100 bales or 200 bales.

The CHAIRMAN. Is it not true also that in margin dealing we elimi-ate the danger of a corner by making the amount that would be nec-ssary so large that it would be impossible to assemble capital enough o do it?

Mr. PARKER. It is, except in this way. Take what occurred this ast fall. Why did futures run so high over spots? It was because he stock of cotton in New York had gotten down to 38,000 bales; or 0,000 bales, was it not?

Mr. NEVILLE. Never that low.

Mr. PARKER. How low was it?

Mr. NEVILLE. Thirty-eight thousand bales.

Mr. PARKER. Thirty-eight thousand bales. The stock of cotton in New York had gotten down to 38,000 bales. That is not so much. myself use 75,000 bales. Therefore I could corner that 38,000 ales by taking it up. What happened? The fear of a corner there ut futures up to 17½ cents, 1½ cents over spots. That is what appened. They got the futures up so high that in comes the dealer, nd in a very short time they increased the stock in New York three r four times over.

Mr. NEVILLE. Oh, that stock was increasing in New York all the eason. It was a gradual increase.

Mr. PARKER. Well, a gradual increase; and the amount finally ot to the point where it was 160,000 bales, and then it got beyond

the point where there was a squeeze, where they could take it up, and then occurred this break of 3 cents a pound. That is the manipulative feature that goes on all the time.

Mr. NEVILLE. Do you mean to say that the smallness of the stock in New York was responsible for the advance of the market?

Mr. PARKER. The smallness of the stock in New York was responsible for the advance in the market, of futures as compared with spots. Take it in the fall of 1903. I will leave it to my friend whether I am right or not. I saw a condition in 1903, in September—I think I have the date right—in the Hayne-Brown corner in New York, where cotton on the 30th of September was worth 13 cents and on the 1st of October it was worth 9 cents. Is not that right?

Mr. NEVILLE. That was a corner.

Mr. PARKER. We propose to protect you against the corner by providing that you can deliver cotton anywhere in the South, wherever it is. I recollect one of my friends sent by express a whole train load of cotton in order to get it there before the 1st of October.

Mr. HUBBARD. There was not any cotton in the South at that time. The crop was late.

Mr. MENDELBAUM. You have testified here that on the day when cotton sold at 16½ cents in New York you bought cotton in the South at 14.75 cents.

Mr. PARKER. No; I told you I was offered a certain grade of spot cotton at 14.75.

Mr. MENDELBAUM. What would have prevented that producer from sending his cotton to New York and selling it at 16.50 cents at that time?

Mr. PARKER. Nothing in the world, except he did not know enough. If that producer had been as smart as the speculator, he would have forwarded that cotton to New York and delivered it on the contract.

Mr. MENDELBAUM. He would have gotten 16.50 cents?

Mr. PARKER. Yes, he would have gotten 16.50 cents, subject to the charges for transporting the cotton. But our farmers do not appreciate the benefit they can get in that way. Of course they do not know. They can not follow all these things all the time. I can not do it myself.

The CHAIRMAN. We are very much obliged to you for the information you have given the committee.

TESTIMONY OF MR. CHARLES S. WEBB, OF GREENVILLE, S. C.

(The witness was sworn by the chairman.)

The CHAIRMAN. Will you state what your business connections are?

Mr. WEBB. I am in the spot cotton and brokerage business; spot brokerage. I just want to start out, gentlemen, by saying that I have been selling cotton to the mills in the South for twenty years, and I will say this, that I have not yet found a bull among the spinners. Ninety per cent of them are bears all the time. I buy spot cotton and sell contracts against it, when I can not sell the spot cotton. I probably to-day could get an order for 100 bales or 200 bales of cotton from a mill and go into the market and buy it from a farmer. I buy direct from the farmer. But if I can not get an order from the mill I can not afford to drop out of the market, so therefore I have got to fix a figure on a legitimate profit by hedging the spot.

ı that I buy, and if I buy 100 bales of spot cotton to-day and can ll it to a mill, I sell contracts against it until I can find a place this cotton, and then I unhedge, and I figure on a legitimate Now, sometimes I get left.

Chairman. By that word "unhedge" you mean that you sell contract?

Webb. I buy it in.

Chairman. I see.

Webb. I buy it in. In other words, I buy 100 bales of cotton ones. He comes to town and he says, "Webb, I have 100 bales ton that I want to sell." I say "I am very sorry; I have not lace for it." I go to the mill, and they are not in the market. says, "I want to sell my cotton." I say, "I will give you so for it;" and then I will just telegraph to New York and sell ıles against it, because I have bought 100 bales of spot cotton. probably keep that cotton sometimes a week or a month; until sell it. If I sell that cotton in a week's time, 100 bales, I tele- to New York to sell those 100 bales and close out my contract. n the mill man comes to me. He rings me up on the telephone e says, "Mr. Webb, I want to buy 50 bales of cotton." Mr. r is a friend of mine and a very good one, and a good customer, e buys a great deal of cotton from me, and I must say that I ever sell him cotton for immediate shipment. He sells his probably six months ahead. As I say, he will call up the men all over the country and say "Gentlemen, I want to buy bales of cotton." I will go to work and figure what I can do. not want to sell it myself, I have other merchants I represent. esent Weld & Neville, and I will call them up and I will say, lemen, Mr. Parker wants to buy 6,000 bales, from January to This is in the fall, when cotton is moving freely. They will ie the price; "Sell it to him 60 points on May."

Lever. What does that mean?

Webb. "Sixty points on May" is sixty-hundredths.

Lever. Based on what?

Webb. Based on May.

Lever. On May what?

Webb. Contracts in New York.

Lever. Spot or future?

Webb. Future contracts, because he is buying future cotton; g it for future delivery. Mr. Parker fixes the price right then. ys, "Fix the price on it at 60 points on." We buy then 6,000 of cotton in New York. Weld & Neville sends word to his men er the country, while cotton is moving, and buys the cotton in uts it in the warehouse and carries that cotton for the spinner. ioment he buys this cotton in, if he buys 100 bales a day, he ges and he closes out 100 bales; and so on until he has closed hole contract out. Now, if we had no place to hedge, we could ll him that cotton. It is absolutely impossible for us to do ss, and I believe it would be impossible for Mr. Parker to sell a of goods ahead. You abolish the cotton exchange and, in my n, you put the price of cotton in the spinner's hands.

Chairman. I believe there is no future market in wool.

Webb. In wool?

Chairman. Yes.

Mr. WEBB. No, sir.

The CHAIRMAN. Why is it not just as necessary for the wool factor to have a future market in which to hedge his sales as it is for you as a cotton factor?

Mr. WEBB. I do not know how the wool market is controlled. I am not familiar with the wool market. I am only familiar with the spot end of the cotton business. I am not familiar with the future market. I do not speculate.

The CHAIRMAN. How was the business handled before there was future market in cotton?

Mr. WEBB. That goes back too long. I have been in the spot business for twenty-five years, and we have always handled it in that way.

The CHAIRMAN. There must have been a time when you handled it some other way. The future market has only been in existence since 1870, I believe.

Mr. WEBB. Yes, sir. Back beyond that time there was very little cotton raised, though. Now we are getting up to thirteen and fourteen million bales a year, and we have got to take care of it some way.

The CHAIRMAN. There must have been relatively large crops before that.

Mr. WEBB. Of course, there were large crops of cotton, but nothing like what we are having now.

The CHAIRMAN. And whatever was grown had to be marketed and sold?

Mr. WEBB. I do not know how they took care of it back there.

The CHAIRMAN. Woolen cloth is worth more than cotton cloth.

Mr. WEBB. Yes.

The CHAIRMAN. Therefore a woolen manufacturer who makes sales for future delivery must invest a great deal more money than a cotton manufacturer.

Mr. WEBB. Yes.

The CHAIRMAN. If it is necessary for the cotton manufacturer to hedge against the delivery of his goods in the future, it would seem to be all the more essential for a woolen manufacturer to hedge; and pari passu, if the cotton dealer is obliged to hedge against his future sales, you would think that the wool dealer would also have to hedge.

Mr. WEBB. I can not answer any question about the wool business. I am not in that business.

Mr. CONE. May I have your attention a while? I may be able to give some explanation to this wool question.

The CHAIRMAN. You will be before the committee to-morrow, Mr. Cone. I do not want to protract this hearing this evening. I only thought that Mr. Webb, being in business as a cotton dealer, had had his attention called to the manner in which the wool business is carried on.

Mr. WEBB. No; I do not know anything about that.

Mr. LEVER. I understand that you represent the firm of Weld & Neville.

Mr. WEBB. No, sir; I sell cotton for Weld & Neville. I sell cotton for 15 different concerns.

Mr. LEVER. You represent New York houses?

Mr. WEBB. I represent more southern houses than New York houses. They are the only New York house I represent.

Mr. LEVER. I only take your illustration to get at one point that I am not clear on. Mr. Parker telephones you that he wants 6,000 bales of cotton, to be delivered to him from January to July?

Mr. WEBB. Yes.

Mr. LEVER. You telegraph Mr. Neville, you say, and he telegraphs back to you to sell that cotton 60 points on May. That means 60 points on futures, did I understand you?

Mr. WEBB. Yes. If May cotton is 15, that means 15.60 for six months, figuring carrying charges and all.

Mr. LEVER. Then, am I right in my deduction that futures make the price of spots?

Mr. WEBB. Futures make the price of spots?

Mr. LEVER. Yes.

Mr. WEBB. I do not know whether futures make the price of spots or not. They are willing to sell him this cotton at 15.60. They fix the price, and the only way that they could afford to do that, I would say, is this. I do it myself. We will leave out Weld & Neville, and suppose that I do it myself. Last fall a mill in my territory called me up and wanted 4,000 bales of cotton, January to July. I knew what cotton was selling at, and I figured a profit in the business and made him a price—60 points on May, January to July shipments. He says, "I will take it." I wired and bought the 4,000 bales at 60 points on. That fixed the price with him.

Mr. LEVER. Yes.

Mr. WEBB. Now, I was to deliver to him that cotton along each month, an equal number of bales each month, from January to July. I was hedged, and when I would buy 100 bales I would wire to my broker in New York to unhedge and close me out of 100 bales. I had the spot cotton then and put it in the warehouse, and I have bought all of that cotton in and am out of the future market entirely. That enables me to do a spot business that I could not have done without a contract market.

Mr. LEVER. But you did not buy the spots until you had got a line on the futures?

Mr. WEBB. No; I had a line on spots, and I got a line on futures.

Mr. LEVER. You had a line on the spots, but you did not dare to buy until you got a line on futures?

Mr. WEBB. No. The trade with the mill man was made and then I got those futures. He was to pay 60 points on. I phoned to him that I had bought the 4,000 bales in New York, say, at 15 cents for May. Then he says, "All right; send me a contract at 15.60;" so I sent him a contract at 15.60.

Mr. LEVER. But your spot transaction was based entirely upon your future proposition?

Mr. WEBB. I could not have carried out the spot transaction unless I had had the future market to go into.

Mr. LEVER. That is what I was getting at.

Mr. WEBB. I would have had to give up the trade. I would have had to say: "I can not sell it to you."

Mr. PARKER. At Greenville in the fall you were able to buy spot cotton at about 30 points under December quotation?

Mr. WEBB. Thirty points under May is what I bought it at.

Mr. PARKER. Now, when this break occurred the other day, that cotton which he had bought from the farmer at 100 you were able to sell to the spinner at over 100 points on May, were you not?

Mr. WEBB. I think there was some cotton sold that way.

Mr. PARKER. Yes; the spinner got it at 100 points on May. You bought it at 60 points under May?

Mr. WEBB. But, Mr. Parker, listen to me one minute. You said here a while ago that when cotton went up the spot people wanted to depress the spot market. Now, gentlemen, the higher the future market gets the cheaper basis we can buy spot cotton on. Is not that so?

Mr. PARKER. When futures in New York went the other day to 16.47, I think it was—somewhere along in there—spot cotton in the South, for instance, at Greenville, was bringing from 15 to 15.75.

Mr. WEBB. Fifteen and fifty one-hundredths was the highest.

Mr. PARKER. In other words, spot cotton there was 100 points under the future, to the farmer? It was 100 points then under the future?

Mr. WEBB. Yes.

Mr. PARKER. In less than three weeks after that the same spot cotton, the very same cotton that you bought from the farmer at 100 points under the future, you were selling to the spinners at 100 points on futures?

Mr. WEBB. Yes; because the future market broke down.

The farmer did not pay any attention to what was going on and did not turn his cotton loose when it was up. He swung on to it. He said: "I am going to get 20 cents." You can not take it away from the farmer. [Laughter.] But Mr. Parker and his spinner friends down there would not pay them 15 cents. They would offer it to them, but he would say, "No; I can not do it." If he could not do it, I can not do it. If you put the spot men out of the way and put them where they can not get any place to hedge, Mr. Farmer will have to go to the mill men, and they are the best organized people in the world to-day. They have a South Carolina association and they have a North Carolina association, and they have the American Cotton Spinners' Association, and their Liverpool association, and they are organized in Europe, and they know what is going on; and I want to tell you, if you want to take and put away the cotton exchange, and fix us so that we can not go in and buy the farmer's cotton and protect him, you will turn it over to the spinner. Mr. Parker will bear me out. I must say that he has been a bull this year, but in nine cases out of ten he is a bear. He wants to get it as cheap as he can; and it is natural for a man to want to buy as cheap as he can, and that is the way with the spinner.

The CHAIRMAN. Your idea is that the abolition of the future market would depress the price of the cotton to the producer, as a general proposition?

Mr. WEBB. It certainly would.

Mr. BURLESON. Then how do you explain the fact that the producers of cotton are so universally in favor of destroying this gambling in cotton?

Mr. WEBB. I do not think they understand it. I do not think you understand how these people handle it.

The CHAIRMAN. I would like to call the attention of the gentleman o this morning's mail to the chairman of this committee, in which here were in the neighborhood of 200 letters asking for the passage f this legislation.

Mr. WEBB. Yes.

The CHAIRMAN. From men who claim to be producers of cotton.

Mr. WEBB. Now, gentlemen, I want to say another word on somehing else.

Mr. BURLESON. Just one other question. You spoke about buyng 100 bales of cotton. You had no purchaser for it. You immeiately sold 20 bales on the New York Exchange. Now, in order or that hedge to be successful, there must be a parity maintained etween the price of futures and the price of middling cotton, must here not?

Mr. WEBB. Yes.

Mr. BURLESON. Suppose that for some reason, either because of he difference of values that has been arbitrarily fixed by the comnittee or some other reason, the price of your futures goes up and he price of your spots goes down, and there arises a great disparity, what becomes of that hedge?

Mr. WEBB. If the futures go up and the spots go down, I make nore money than ever.

Mr. BURLESON. You make more?

Mr. WEBB. Yes; because I have got futures bought against the pots.

Mr. BURLESON. You said you sold futures?

Mr. WEBB. Yes; you are right there. When I buy 100 bales of pots I sell 100 bales of futures.

Mr. BURLESON. Then you take it back that you make more money?

Mr. WEBB. Yes.

Mr. BURLESON. What do you do, then?

Mr. WEBB. I lose.

Mr. BURLESON. You lose?

Mr. WEBB. Yes. Now, if futures go down and spots are up, I am ound to lose.

Mr. BURLESON. Yes. Does not that frequently happen on the New York Stock Exchange?

Mr. WEBB. No, sir.

Mr. BURLESON. Has it not frequently happened in the last few ears?

Mr. WEBB. No; only once in my experience.

Mr. BURLESON. Only once?

Mr. WEBB. It happened the other day, and it happened in that break; and the year that we had the bad crop year, I was into that nyself, and I was with those people and I know all about it.

Mr. BURLESON. What do these spinners mean, then, when they adopt resolutions saying that the disparity between the prices of future contracts and spots has become so much that they can not safely go to New York to hedge? Are they ignorant, too?

Mr. WEBB. No, sir.

Mr. BURLESON. If they adopted resolutions of that kind, were they ignorant, too?

Mr. WEBB. I do not say that the spinners are ignorant. I say the farmers are ignorant.

Mr. BURLESON. Did they understand the situation?

Mr. WEBB. I do not think they understand the situation; no.

Mr. BURLESON. The spinners have adopted a resolution of that kind. If the farmer was ignorant, would he ask for the abolition of gambling? Now, who is it that is wise in this transaction?

Mr. WEBB. I do not know.

Mr. BURLESON. Is it the men who represent firms in New York who belong to the cotton exchange and the members of the exchange; are they the ones who are wise?

Mr. WEBB. I am telling you, sir, exactly what I know about spot cotton and how I have been in the spot business for twenty-five years, and I do say that if you cut out the exchange, the place where I can go to hedge my spot sales, you take me out of the market; you take everybody out of the market from South Carolina to Texas, and you put the market in the hands of the spinners.

Mr. NEVILLE. Mr. Burleson asked you, in case you bought 100 bales of spot cotton and sold 100 bales of futures, if futures should go down and spot cotton should stay where it was, if you would lose money.

Mr. BURLESON. No; I said if futures go up and spots go down. I put it exactly right.

Mr. NEVILLE. Well; I will take your correction. I had the result of the proposition in mind. You bought 100 bales of spot cotton and sold 100 bales of futures. If the worst came to the worst, you could sell that 100 bales and deliver it on contract, could you not?

Mr. WEBB. Yes.

Mr. NEVILLE. So that the only money you would lose would be the difference between the price you bought that cotton, off the contract that you sold, and the freight and delivery expenses on the contract?

Mr. WEBB. Yes.

Mr. NEVILLE. Your loss, then, would be determined by your judgment as a merchant in buying spot cotton at a price and the selling price?

Mr. WEBB. Yes, sir.

Mr. BURLESON. Then, if you make a loss it ceases to be a protection for you?

Mr. WEBB. No; when I close out, the transaction is closed.

Mr. BURLESON. On the case put by Mr. Neville he says your are to lose the freight and the difference in price and other items. Then, if you lose, your transaction on the exchange did not afford you protection, did it?

Mr. WEBB. Not that particular transaction; no, sir.

Mr. PARKER. You recollect the sale that I refer to, where you sold me 5,000 bales of cotton?

Mr. WEBB. Yes.

Mr. PARKER. At 110 points on May, in the spring of 1908?

Mr. WEBB. Yes.

Mr. PARKER. To be delivered January, February, March, April, and May?

Mr. WEBB. Yes.

Mr. PARKER. You remember that I fixed 9.90 on May. That made the cotton cost me 11 cents?

Mr. WEBB. Yes.

Mr. PARKER. When that particular contractor failed, spots had gone down to 9.19.

Mr. WEBB. That was the year when they had the low cotton in New York.

Mr. PARKER. Yes.

Mr. WEBB. That was two years ago.

Mr. PARKER. No; that was the low-crop year.

Mr. WEBB. They were not in business in 1908.

Mr. PARKER. Gentlemen, that was in 1908. The low-crop year was in the fall of 1908; and yet the effect of that low-grade cotton which gravitated to New York was such that even in 1908, Mr. Webb, you sold me the cotton at 110 points on May, which was unnatural, when I ought to have been paying less than New York, and yet the man who sold me the cotton broke because futures went down and spots went up.

Mr. WEBB. I think you have it wrong. The year they lost so much money and they went broke was the bad-crop year. I remember it distinctly.

Mr. PARKER. Let us get the facts right. Do you not recall that I had to make claim against the bankrupt firm, growing out of the fact that I had to go out in the open market and buy that cotton at their expense?

Mr. WEBB. That was the bad year.

Mr. PARKER. That was the year that the firm became bankrupt.

Mr. WEBB. Two years ago.

Mr. PARKER. That was 1908. That was the year the firm became bankrupt: the spring of 1908, was it not?

Mr. NEVILLE. Let me make a suggestion which may straighten you both out: 1906 and 1907 was an extremely low-grade year?

Mr. PARKER. Yes.

Mr. NEVILLE. The crop of 1907 was better, but not a high-grade crop.

Mr. PARKER. But in May, 1908, futures were selling on the New York Cotton Exchange at 9.18 at the very time I had to buy the spot cotton at the expense of that firm that you had sold me, and had to pay 11.50 cents for it.

Mr. WEBB. Yes. Now, I am going to explain about why you had to do that. There was a great scarcity of the grade I sold you. I sold you strict middling, and that was bringing a premium over middling or strict low middling of 150 points. That was something abnormal. If it had not been we could have gotten it in New York for 9.13 and shipped it to you. We went to Memphis and bought some of that cotton and we bought it all over the country and took these low grades out and shipped you the high grades. The high-grade cotton brought a premium. We paid 150 to 250 points on for strict middling. That was the cause of it. It was a very low-grade crop year, and we could not get the grades we sold you. It was just like I had sold Mr. Parker, something I could not get and some fellow had it, and he would say, "You have got to pay me for it;" and we went after it and got it where we could. It was impossible to get it on the New York Exchange or on the New Orleans Cotton Exchange, and we had to scour the country to get that grade, and in getting that we had to take these

low grades and select these high grades out. That is why we had to pay a premium. That will happen. It has happened only once in my twenty-five years' experience.

(At 5 o'clock p. m. the committee adjourned until to-morrow, Thursday, February 10, 1910, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,
Thursday, February 10, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott (chairman) presiding.

TESTIMONY OF MR. THOMAS J. BROOKS—Continued.

(This witness had been previously sworn.)

The CHAIRMAN. I should like to make this statement in the interest of the clearness and correctness of the record. This is not a lawsuit and we are not attempting to impose any rules of evidence; our purpose is simply to elicit as much information as possible, and we recognize that the best way to do that, perhaps, is to allow a wide latitude in questioning; so we have no objections to any gentleman in the room asking a question at any time of the witness who may be testifying; we do believe, however, that in the interest of orderly procedure, and so that the record may be accurate, it would be best, if any gentleman wishes to interrogate a witness, to first address the chair and be recognized by name, so that the reporter can note the name and in order that the interrogator may proceed in proper order.

On yesterday Mr. Brooks made a statement before the committee, but in order to permit gentlemen to be heard who could not remain until to-day he yielded the floor before being cross-examined. If there are no objections we will ask Mr. Brooks to resume the stand this morning and submit to such questions as members of the committee or others may desire to ask. Mr. Brooks, I should like to inquire briefly as to the extent to which warehousing has gone in the South up to the present time, either on the part of individual growers of cotton or of warehouse companies.

Mr. BROOKS. Well, for the last three or four years, I would say four years, the farmers in the cotton belt have gone into the business of building their own cotton warehouses more than ever was known in the history of the country, and there have been some very expensive and very elaborate warehouses built by private concerns for the business of storing merely for the charges they might get out of the storage. The farmers, under the direction and influence of farmers' unions, for short, have built, I do not know the exact number, but several hundred, something like two thousand warehouses of iron, brick, stone, and concrete, with a view of regulating the supply of cotton to the mills throughout the year as they needed it.

The philosophy upon which we base this work in the organization is that the flow of cotton to the mill should be regulated by the flow of cotton goods from the mills, to stop this spasmodic supply, and necessarily disturbing the general level of prices. One thing that has been against that practice being carried out, as it was proposed to be, has been the fact that it has been almost impossible for the

farmer to sell direct to the spinner, for the very reason that when he produced his cotton and got it ready for the market, and went to the spinner to sell it, through his agents, he was informed by the spinner that he had already bought, the spinner having bought from heavy cotton dealers months ahead, and therefore, depending on those contracts, he was not in the market and could not buy direct from the farmer. Now, as was intimated yesterday by some of the stock cotton dealers, that the forbidding of hedging would put them out of business, the deals that the spinners would make, in case that resulted, would be made directly with the farmers through the central sales offices established in the cities where their warehouses are located.

The CHAIRMAN. Are there any such central warehouses already located?

Mr. BROOKS. I will take for illustration the State of Mississippi. They have, I think, about 80 warehouses in that State. I do not know the exact number; and in each of those warehouses cotton is stored by the farmers and each bale is sampled, that sample is sent to a central sales office in Jackson and graded by an expert grader, classified in all of its departments, and the salesmen there then can be in touch with any mill at any season of the year and supply any kind of cotton that is wanted at any month in the year, if they can agree upon prices; and we feel that by reason of these central offices in cotton States being in direct communication with each other the effect would soon be that a mill could make a deal to get any cotton it wanted, any kind of cotton it wanted for future delivery, and let it remain in the warehouse or have it shipped right to the mill and stored there in the storehouse as they should determine.

The CHAIRMAN. As a matter of fact, the intermediary is already eliminated, to a certain extent, in the State of Mississippi through the system you have mentioned?

Mr. BROOKS. They are already using that plan, but, as I say, they are handicapped by the very fact that the mills have so often made their contracts before they get to them. Now, the elimination of the so-called middle man is not the object; it is an incident, merely an incident. I would like to be permitted just on that point to read a resolution—I find I haven't the book here, but will send for it—a resolution that was indorsed and passed unanimously by the International Congress of Spinners and Cotton Growers in Atlanta, Ga., on this very subject, indorsing this plan.

The CHAIRMAN. Suppose you go on and give us, while you are waiting for your pamphlet, a little idea of the way the cotton crop is distributed. Now, one of the arguments against the elimination of future dealings is that it would interfere materially with the distribution of the crop, that the necessity of carrying a great quantity of cotton would impose a heavier burden upon it than that which the exchanges now impose.

Mr. BROOKS. All cotton, after it is picked and ginned, has to be carried by somebody until it is spun by the mills; that is a certainty; we can not get around that. Now, then, the expense of carrying that cotton, the warehouse expenses, and insurance expenses, and the investment of money necessary to hold it, has all got to be borne by somebody; it is not a matter whether the exchanges exist or not. We do not see how they could possibly eliminate that expense; the

only thing in the world they could do would be to shift the responsibility of that expense onto an irresponsible party.

The CHAIRMAN. As a matter of practice at the present time, is it true that most of the cotton farmers market their cotton just as fast as they can get it out of the field?

Mr. BROOKS. It has been the custom generally in the past.

The CHAIRMAN. It is bought by the dealer at the local town and he ships it to the central market, like Memphis or New Orleans?

Mr. BROOKS. Well, it depends on what kind of a buyer he is; if he buys it on orders, he may ship it at once to the point of destination; if he is merely a speculator, he may store it in Memphis or somewhere else, and it may be that sometimes a farmer ships to the Memphis warehouse for storage and lets the factors sell it for him.

The CHAIRMAN. There is a cash market in every neighborhood for cotton that is grown there?

Mr. BROOKS. Yes. But we have developed a plan by which, if a farmer needs the money, he can get about 80 per cent of it, sometimes more and sometimes less, loaned to him by the banks on warehouse certificates, at the lowest possible rate of interest. In my own State, Tennessee, the State Bankers' Association, in their annual convention, passed a resolution openly publishing to the world that they would loan money on cotton stored in warehouses, at 6 per cent, when the ruling price for interest on money loaned on real estate was 8 and 10 per cent. They gave us their moral support, because they felt like it was tiding us over, keeping the farmers from unnecessarily crowding the market with their cotton.

The CHAIRMAN. At what period of the year, ordinarily, is the price of cotton lowest?

Mr. BROOKS. Well, to take it for a considerable number of years, we usually feel the pressure of prices in the fall when it is delivered the fastest. Now, year before last that was not the case; the farmers held their cotton better than usual and the fall prices were better than they were in the spring, and the very fact that it worked out that way was because of so much cotton being sold early in the fall, this last fall, and another reason was that the short crop necessitated those who didn't raise but little selling it and getting the money, as they needed it worse than usual.

The CHAIRMAN. Do you know of any growers who hedge?

Mr. BROOKS. No, sir; I am not personally acquainted with a single grower that hedges.

The CHAIRMAN. Yesterday you used the expression, "ringing out." What do you mean by that?

Mr. BROOKS. As I was raised in the cotton patch and not on an exchange, perhaps the gentlemen on that side could explain it clearer than I could; but it is sales that are made, that go circulating around among the brokers and return back to the original seller, and is torn up and thrown on the floor without any trade being made.

The CHAIRMAN. Practically equivalent to a wash sale.

Mr. BURLESON. I will read you from a letter written by a man who has been in the cotton business for many, many years; he takes the trouble to explain this ringing-out system.

Mr. MENDELBAUM. I would like to ask one question before the gentleman from Texas reads that letter, and the question is this: This committee has ruled that the testimony that goes into this case

should be sworn to; I do not think it would be quite fair to admit testimony that has not been sworn to.

The CHAIRMAN. Well, the committee has admitted thus far in this case a great deal of printed matter, reports of various organizations, and other material of that sort, which, in the nature of the case, could not be sworn to, and in view of the fact, as I stated in the beginning, that we are not trying a lawsuit, but trying to elicit information, and in view of the fact that the committee will take notice of the source of all the information it receives, I believe that we will not object to the introduction of it.

Mr. MENDELBAUM. I did not want to object to it. I only wanted to call to the attention of the committee the difference it should make in considering sworn testimony and that brought in by people who do not appear themselves and give that information.

Mr. BURLESON. I will withdraw that for the present.

Mr. BROOKS. Mr. Chairman, if you are ready to have this resolution read, I am now ready to read it.

The CHAIRMAN. To what does that resolution refer?

Mr. BROOKS. The resolution was adopted by this Congress of Spinners and Cotton Growers at Atlanta, Ga., in October, 1907; it was a report of a committee appointed by that body on "closer trade relationship between the farmer and manufacturer," and the report of the committee was adopted unanimously, and it is the report that I want to read:

That this conference of cotton growers and manufacturers is of the opinion that by closer trade relations between grower and spinner a great deal of the present expense in handling cotton can be saved, and the evils attendant on violent fluctuations of the market be mitigated. We are further of the opinion that the extension of the warehouse system in the Southern States, and the creation of central selling offices, will tend to bring about closer trade relations, and are therefore worthy of encouragement by both producer and spinner.

Now, Mr. Chairman, that resolution was worded by Herr Arthur Kuffler, of Vienna. I was with him on the subcommittee that drafted it in the Piedmont Hotel, and it was passed without one dissenting vote. The rule adopted at that convention was this, that nothing should go on record as having been passed and indorsed at the convention that was not unanimously passed; the farmers were in the majority and we could have outvoted them, and that was unfair; but this went through without objection.

The CHAIRMAN. You heard the statement made here yesterday by Mr. Parker to the effect that the elimination of futures would involve a pretty complete and radical change in the system of handling and distributing cotton. Do you agree in the main with what he said?

Mr. BROOKS. Yes, sir.

The CHAIRMAN. The purpose of my line of questioning in regard to the warehouse system in the South was to develop the fact, if it were a fact, that the producers are getting ready for that change.

Mr. BROOKS. Yes, sir.

The CHAIRMAN. In your judgment is it a movement in that direction?

Mr. BROOKS. Yes, sir; and we are prepared for what the change will be; we have been preparing for it for years.

The CHAIRMAN. You do not believe, then, that the elimination of the future market would compel the farmers or cotton growers to accept a lower price eventually?

Mr. Brooks. No, sir; we are willing to take the risk of the result, or whatever you may call it; we are willing to take what follows and we are willing to be at the picnic that the gentleman referred to yesterday, and furnish half the music and half the dancing.

Mr. McLaughlin. Do you agree with Mr. Parker in what he said, to the effect that these exchanges should be permitted to continue to do business and change some of its rules so as to play this game fairly?

Mr. Brooks. Well, Mr. Chairman, that is rather a difficult question to answer with a yes or no, because this Congress can not regulate the rules of any exchange; if they have grown up and all these years have followed the rules they can continue under those rules unless they are prohibited to use interstate connections or by some other method, and to ask if they should change their rules would it be all right is almost like the problem: If 5 and 6 are 15 what would 7 and 9 be? It seems to me to be hardly a practical question, because we are not looking for anything of that sort to be done.

Mr. Lever. Mr. Parker was not looking for that either, was he?

Mr. Brooks. No; I do not think he was.

Mr. Lever. I would like to ask, Mr. Brooks, on the matter of hedging, if you regard hedging as any different in its results from the ordinary gambling transactions on the exchange?

Mr. Brooks. No, sir; they are exactly the same, as far as I see; the processes are identical; the only difference is that the hedger handles spot cotton while he is hedging, while the gambler does not.

Mr. Lever. You are, then, as much opposed to hedging transactions as you are to the ordinary gambling transactions?

Mr. Brooks. Yes; I do not think it possible to make a law that would apply to one without having it apply to the other.

Mr. Lever. In other words, you do not think you could separate the two?

Mr. Brooks. No, sir; I do not.

Mr. Lever. Do you have any information as to the percentage of gambling transactions carried on on the exchange in comparison with the legitimate transactions?

Mr. Brooks. I have no official figures, and it is almost impossible to get them.

Mr. Lever. Do you have an opinion about it that you would like to express?

Mr. Brooks. Well, so far as I have been able to obtain, 90 per cent is usually what is expressed as the purely speculative feature.

Mr. Lever. Ninety per cent is purely speculative?

Mr. Brooks. Yes, sir.

Mr. Lever. The statement has been made that the effect of the change in this country would be to transfer the gambling transactions to Liverpool and Bremen. What have you to say as to that?

Mr. Brooks. Well, I think we could be more independent of one in Liverpool than we could in this country, and I know there is a way by which, if Liverpool interfered with us too much, we could force a readjustment there; but I won't go into a discussion of the details of that.

Mr. Lever. Do you know whether or not there is now pending in the English Parliament a bill similar to the one now pending before this committee?

Mr. BROOKS. I am not informed on that.

Mr. LEVER. I might say to the chairman that that is a fact.

Mr. BROOKS. I will say in connection with that that a resolution was passed at this same congress, at Atlanta, demanding that Congress pass this law and that the Parliament of Great Britain also do so; it passed the congress, but it was not unanimously authorized, so it did not go out as the recommendation of the congress.

Mr. BURLESON. I would like to direct Mr. Brooks's attention to the fact that there is no gambling on the Bremen exchange at all; it is prohibited by law; in fact, it has not been practiced for many, many years, if it was ever practiced.

Mr. LEVER. Does your information agree with the information given the committee yesterday, that New York influences, and in a large measure controls, the Liverpool operations?

Mr. BROOKS. That seems to be the preponderance of evidence on that side.

Mr. LEVER. What have you to say as to the ultimate effect upon the producers and spinners by the abolition of exchanges in this country?

Mr. BROOKS. The producers and spinners?

Mr. LEVER. Yes.

Mr. BROOKS. Well, I think it would bring them closer together, eliminate useless waste and expense, just as was expressed in this resolution, and there is such a thing as raising the price to the producer and lowering it to the consumer by eliminating unnecessary friction.

Mr. LEVER. You do not think the effect would be to depress the prices paid the producers?

Mr. BROOKS. No, sir; not one way or another; no, sir.

Mr. LEVER. The effect would be, then, you think, to permit the law of supply and demand to have freedom of action?

Mr. BROOKS. Yes, sir; that is what we want; that is all we ask.

Mr. SIMS. If hedging constitutes any considerable amount of the dealings on the cotton exchanges—I mean hedging by persons who actually handle cotton—if the percentage of future dealings is due to that kind of hedging, why shouldn't the hedging be as great in November as in October or December?

Mr. BROOKS. Well, it would appear that it should be just as great in that month as in those months.

Mr. SIMS. Is it not a fact that at the ports and interior points there is as great a volume of cotton received in November as in any other month in the year?

Mr. BROOKS. Yes, sir; I think that is so.

Mr. SIMS. Yet isn't it a further fact that there is practically no dealings in the future market in November?

Mr. BROOKS. I am told that that is called a quiet month.

Mr. SIMS. But isn't there as great activity in the actual movement of cotton in November as in any other month, say October?

Mr. BROOKS. Yes.

Mr. SIMS. Then if hedging is due to the actual movement of cotton, why shouldn't it be as great in November as in any other month?

Mr. BROOKS. Well, it would have to be, I should think.

Mr. SIMS. Therefore the conclusion inevitably is that hedging of the character described constitutes a considerable portion of the future dealings on the cotton exchanges?

Mr. Brooks. That, I think, is certainly admitted.

Mr. Heflin. But if it were not for wild fluctuations there would be no necessity to hedge?

Mr. Brooks. If prices were always stable, of course nobody would hedge; there would be no inducement for it.

Mr. Heflin. Mr. Lever asked you a little while ago how it would affect the producer if the exchanges were abolished. If the prices were more stable, the spinner and producer closer together, it would help the producer to get money from the banks—that is, if you had more stable prices? The fact that prices fluctuate, now up and now down, injures him in that respect, doesn't it?

Mr. Brooks. Yes, sir. They will not limit the amount; they would advance on it to a greater extent.

Mr. Heflin. One other question. The chairman asked you why they sold cotton so rapidly in the early fall. I believe that was the substance of his question. That is largely due to the fact that they owe money, a great many of them, isn't it?

Mr. Brooks. Yes.

Mr. Heflin. And they sell the cotton in order to meet their obligations?

Mr. Brooks. Yes; that applies to a number of them.

Mr. Cocks. Don't you people have some fear that there might be a combination of spinners that would absolutely control the prices as is done in the beef proposition?

Mr. Brooks. No, sir; we do not anticipate that difficulty; we think that there is an equal show for the farmer in dealing with the spinner as with anybody else.

Mr. Cocks. You realize that it would require a great deal of capital on the part of the spinner to do business under this system?

Mr. Brooks. Not necessarily, because the farmer could hold the cotton until he needed it; he wouldn't have to invest in it.

Mr. Cocks. That would depend on the success of the warehouse scheme, would it not?

Mr. Brooks. Yes, sir.

Mr. Mendelbaum. I would like to ask you whether you are aware, or not, of the fact that the unions have tried to sell cotton on the cotton exchanges?

Mr. Brooks. Do you mean the farmers' union?

Mr. Mendelbaum. Yes.

Mr. Brooks. I am very positive it has not.

Mr. Mendelbaum. You stated here that you have attended several spinners' conventions?

Mr. Brooks. I attended only one.

Mr. Mendelbaum. Will you tell me how much nearer the spinners and farmers came together than heretofore?

Mr. Brooks. Well, we think that we can see——

Mr. Mendelbaum. Not what you think—what you know.

Mr. Brooks. Well, I know this: That we are sure now of our central sales offices in some of the cotton States making direct deals with the spinners, and I cited Mississippi as an instance.

Mr. Mendelbaum. Mr. Sims has asked you the question how it is that there is less hedging in November than there is, for instance, in December or January or March, and he has emphasized the fact that there should be more hedging terminating in that month, as most of

the cotton comes in then. I do not know whether you can answer the question exactly—I do not know whether I should ask it of you or bring it out myself—but isn't it caused by the fact that cotton which is hedged is cotton that is to be used in the far distant time and not immediately? There is no use to hedge cotton that is bought and needed and controlled for immediate consumption. Cotton that is hedged is to protect those who bought in January, March, July, and August.

Mr. BROOKS. That may have something to do with it, but I do not think that causes the difference that really exists.

Mr. CONE. Did I understand you to say that you can borrow money cheaper on cotton than on real estate?

Mr. BROOKS. Very emphatically so in my State.

Mr. CONE. I grant that is right, Mr. Brooks. Will you permit me to give these gentlemen the reasons for that?

Mr. BROOKS. I have no objection.

Mr. CONE. Cotton, gentlemen, can be hedged on the exchanges and the banks cheerfully, or the lenders of money will gladly, lend money on a security such as cotton that can be turned—in the first place they know it is insured in a manner to protect them, and in the second place they can turn it into money within five minutes. If they can not find a mill who will buy that cotton they can actually compel the delivery of that cotton on the exchange and they can turn that cotton; they can put that cotton on a dray and they can draw a bill of lading any moment they choose. That is a thing that can not be done with real estate.

Mr. BROOKS. The gentleman seems to infer that this cotton was hedged, which was the reason the banks would advance this money at a low rate of interest. I will state that that is not the case; that the cotton was not hedged. It was stored in the warehouses owned by farmers, and therefore no one could hedge on it.

The CHAIRMAN. I should not think it would make any difference, for the purpose of the argument, whether that money would be loaned more cheaply on cotton than on real estate. The only point of the question, which brought out this information, was to develop to what extent cotton was being put in warehouses by the producers.

Mr. SMITH. I should like to ask Mr. Brooks a question right in this connection touching right on this particular point. Is it not a fact, in your experience and mine—we are in the same business—that banks will not lend within approximately the value of cotton on a given date for fear that the violent fluctuations that occur, unwarranted as we say, might wipe out the margin, and you would have to put up more to secure your cotton or it would be sacrificed?

Mr. BROOKS. Yes, sir; that is the way we look at it.

Mr. SMITH. Therefore you can not realize as much on your cotton, according to its value in the world's market, as you could on other property, by virtue of these wild fluctuations? Is not that true?

Mr. BROOKS. Yes, sir.

Mr. MENDELBAUM. Isn't it a fact that there is more money loaned, I mean on cotton, with less margin, even by your banks at home, than there is on any other commodity, including real estate, which is supposed to have a stable value?

Mr. BROOKS. That may be true, but it does not necessarily imply that they——

Mr. MENDELBAUM. I asked whether that was true or not, not what it implies; whether you can not obtain on cotton more advances than you can on any other product or any other class of property, including the one considered most stable, real estate? The suggestion has been made that you can not get as much on cotton by reason of the fluctuations in the market; there are not those fluctuations in real estate, and I ask whether you can obtain on real estate anything like the advances you can get on cotton?

Mr. BROOKS. Well, I wouldn't say anything like it, but then, perhaps, the average would not be higher.

Mr. MENDELBAUM. I would like to just ask whether the reason you can obtain such an extraordinary amount of advances on cotton is not because of the fact that the exchanges insure the loan in the banks and in case of necessity they can sell that cotton immediately?

Mr. BROOKS. I do not think the exchanges furnish the means by which a farmer can sell his cotton.

Mr. MENDELBAUM. I am talking about the banks making the loans.

Mr. BROOKS. The cotton that the banks have loaned money on is not cotton that is hedged.

Mr. MENDELBAUM. I am not talking about hedging; you confuse the two propositions. The fact that people are willing to loan large amounts on cotton, more than on any other property, including real estate, as I have pointed out, is because through the medium of exchanges they find a ready market in case they want to sell it.

Mr. BURLESON. Bearing directly upon that point, and to throw some light upon the statement made by Mr. Cone, I would like to read a letter that I received this morning from the president of a national bank. In this connection I am pretty sure if you would call on national bank examiners you would find that in the banks in rural districts cotton accounts are the cause of the most worry. I venture you the assertion that three-fourths of the losses of the banks are from those sources, and I believe it would be very well to examine those sources of information; that is, the information that comes from the banks themselves.

Mr. MENDELBAUM. Yet they are willing to loan more on that commodity than on any property you can name.

Mr. BROOKS. That does not necessarily prove that the future dealing has any advantages.

Mr. MENDELBAUM. Just one more question. Do you consider the fluctuation in prices only when the market goes down?

Mr. BROOKS. It is a fluctuation, no matter whether it goes up or down.

Mr. MENDELBAUM. You do not complain when the fluctuation causes the market to go up, but you only complain when the prices go down?

Mr. BROOKS. I will say that the fluctuation that goes above where the natural law of supply and demand would place it is just as evil as if it goes below normal.

Mr. MENDELBAUM. Did you consider the law of supply and demand applied one or two years ago when the farmers' unions put up the price to 15 cents when cotton was selling at 12?

Mr. BROOKS. The law of supply and demand has not applied since the exchanges have been in control.

Mr. MORRIS. Mr. Brooks, I understood you to say a while ago that you were present at the international convention in Atlanta?

Mr. BROOKS. Yes, sir.

Mr. MORRIS. Do you remember, Mr. Brooks, that a gentleman from the exchange in New York came before the committee of the farmers' union in Atlanta?

Mr. BROOKS. Yes, sir.

Mr. MORRIS. Do you remember what that gentleman said relative to the number of bales of cotton that was handled on the New York exchange annually?

Mr. BROOKS. I think I do.

Mr. MORRIS. What was it?

Mr. BROOKS. I think he said about 70,000 bales.

Mr. MORRIS. I mean futures?

Mr. BROOKS. I think he said—my recollection is about 100,000,000 bales; I am not sure.

Mr. MORRIS. Do you remember when he said that, Mr. Brooks, that a gentleman from South Carolina, a member of our organization, asked him what it cost annually to carry that 100,000,000 bales of cotton, the dealings there?

Mr. BROOKS. No, sir; I do not remember his answer.

Mr. MORRIS. You do not remember the amount?

Mr. BROOKS. No.

Mr. MORRIS. Do you remember him saying anything about three hundred millions of dollars?

Mr. BROOKS. Unless I remember the exact answer I would not like to give you an answer.

Mr. MORRIS. I think I can bring the gentleman's mind to this proposition if I can lead him up to it.

Mr. BROOKS. I think I see the point you are driving at, but I think there are others who will appear before the committee that will be able to give this information.

Mr. MORRIS. Do you remember that he told us who paid that loss?

Mr. BROOKS. Yes, sir.

Mr. MORRIS. Tell the committee, please.

Mr. BROOKS. I think his expression was "The unfortunate speculator, and the fool that dealt with him;" I think that was the expression.

Mr. WEISSE. I am a manufacturer; and as the gentleman from New York seems to make an awful point about futures and the part that Wall Street takes in regard to the prices, I would like to ask, in the panic of 1907—I am addressing this to Mr. Brooks or the gentleman from New York——

The CHAIRMAN. Mr. Brooks is on the stand now, Mr. Weisse.

Mr. WEISSE. I would like to ask a question for information, what the prices of cotton would have been if Wall Street would have depended entirely on their resources and if the Treasurer of the United States had not helped them out in 1907?

The CHAIRMAN. I think an answer to that question would only be a matter of opinion, and we are only trying to elicit information.

Mr. NEVILLE. You referred yesterday to States that had passed antioption laws, and said that such laws had driven bucket shops out of existence. Are there any bucket shops in any of those States to-day?

Mr. BROOKS. I am not positive that there are no bucket shops in any of those States; I know they have been driven out of my own State, and I understand they have been driven out of other States.

Mr. NEVILLE. There is one in Charlotte, N. C., to-day, if you want to know.

Mr. BROOKS. Is that right? I didn't know it.

TESTIMONY OF MR. D. J. NEILL, OF TEXAS.

(The witness was sworn by the chairman.)

Mr. NEILL. Mr. Chairman and gentlemen, my name is D. J. Neill. I am the representative from the Farmers' Union of Texas. I was formerly its president. The only official connection that I have with the organization now is as its representative here. I want to say to you gentlemen that our organization in our State has 5,075 local unions; we have 160 county unions; we have 321 warehouses in that State. Our organization universally is against the New York exchange. The legislature of Texas blotted out the bucket shops in that State three years ago, the thirty-first legislature. The exchanges sought to repeal the law by the introduction of a bill in the senate and house, but they found no man in either branch of the legislature who would move to take the proposition up in the committees at all. You take our State, and to-day its eyes are turned toward Washington; the farmers of that State are expecting at your hands and the hands of Congress some kind of legislation along the lines demanded by the farmers.

Now, then, gentlemen, I am from one of the largest cotton producing sections in the South. Our State makes, on an average, three and a half million bales; we have made as much as four and one quarter million bales in a year. You take our people and we have been doing what we could to counteract the influences of the exchanges; we have gone along and built our warehouses; we have adopted our central selling agencies plan; we have made arrangements at Galveston for the handling of our cotton; we can borrow money on our cotton at a low rate of interest, and our people are not called upon at all to hedge their cotton. We have handled several hundred thousand bales of cotton at Galveston, and I believe that we have several thousand bales now in that city. We have two cotton exchanges in the State of Texas, one located at Galveston and the other at Houston; there are no future deals made upon those exchanges; there is a spot price made up in the exchange and sent out to the people of the State; our warehouses get those prices; some of them get it every morning and some of them twice a week. Now, our people in Texas are prepared for the exchange, and our people feel that if the New York and New Orleans exchanges are blotted out it will not affect our people in that State.

Now, gentlemen, as to the threat that was made here yesterday, that if you passed a bill eliminating this hedging proposition the cotton broker would have to retire from business; that same threat was made in our capital city when our bills were pending; they threatened to go out of business; they predicted all kinds of calamities, and they said that the farmers were going to play into the hands of the spinners. I want to say to you gentlemen that the calamity did not come; the broker was just as eager to buy our cotton after the passage of that law as he was before, and but very

ew, as I understand, left our State at all. I have just called to mind two of the gentlemen who left, and they went up to New York and became lambs in the hands of the exchange.

The CHAIRMAN. Would it interrupt you to ask you a question here? Had it been the practice of these brokers to hedge in the bucket shops of Texas?

Mr. NEILL. Well, now, I do not know; I do not know whether they hedged there or not. But, Mr. Chairman, in addition to the bucket shops there were a number of branches of the big affair in New York, and it was a practice, whenever they wanted to hedge, to go to these branches and send a telegram over to New York City.

The CHAIRMAN. I was attempting to develop the fact whether or not after these bucket shops were legislated out of existence in Texas the brokers abandoned the practice of hedging or whether they simply transferred their hedging to the New York or New Orleans exchanges? But, perhaps, you don't know that?

Mr. NEILL. Well, I do not know; no, sir.

Mr. McLAUGHLIN. You spoke of the exchanges that are now in business in Texas; are the prices that are given out practically a reflection of the prices given previously in the exchanges in New York?

Mr. NEILL. I understand that the price that is given out by the Galveston Exchange is made upon the average of the spot sales; I understand that that is the case, that it is an average of the spot sales made in that city.

Mr. HAWLEY. You mean for the committee to take that as a statement of fact?

Mr. NEILL. Yes, sir. Now, you take these prices as registered by the Galveston Exchange, and for any number of dates last year it shows almost universally a higher price than New Orleans, where there is no restriction at all; there are a few exceptions; but it has shown a higher price, and the people of Texas have been benefited by the passage of the antioption law in that State. Now, I want to say to you gentlemen that the farmers of my State have been prostrated by the fluctuations of the cotton market; it is destroying the business of the farmers, and I want to say that he is an earnest seeker of relief; we must have relief; our markets have been running up just like sledge hammers and it has largely destroyed the stability of the farmers' business, it has destroyed the business of the merchant because his business is closely connected with that of the farmer; not only that, but it has affected the banks of our State. The farmer wants, gentlemen, stability of market; if it is 8 cents he wants 8 cents; if it is 10 cents give us 10 cents, but this thing of running up and down has unhinged him. I want to say to you that it has largely prostrated the farmers of our country. We feel, down in Texas, that prior to the passage of the Texas law we had no protection; we feel that the fluctuations in the market have largely destroyed actual speculation in cotton; we feel that way and feel again that the prices made in New York, telegraphed to our State, have enabled the cotton men there to form a trust, to the utter destruction of competition, and the only competition that has come to our people at all has been forced upon the cotton brokers by our organization.

Now, in 1907 and 1908 we adopted in that State what we call our "Galveston plan;" we entered into an arrangement with the cotton factors in Galveston whereby we could ship our cotton to Galveston,

store it, draw money upon it, for a low rate of interest, and hold it for twelve months. When the price did not suit in the interior, our people put their cotton upon the platform and the cotton was shipped to Galveston. It had this effect, of putting the interior buyer in competition with the stock market at Galveston. Now, I do not want to take up the time of the committee, but I want to say to you that our people are asking that some law be passed that will give to that people relief; so far as we are concerned we feel that if the exchanges are blotted out our people, under their present arrangement, and their system, and their selling agency, would be able to take care of themselves. Now, we do not want this hedging proposition, gentlemen; and I want to say to you that with hedging, its weight must fall somewhere, and it is going to fall where there is the least resistance, and the least resistance has come always from the farmer of this country, and, gentlemen, it has always fallen upon his head. The broker, when he buys cotton, deducts the price of his hedging, I have been told; and in the beginning it falls upon him; now, then, the cotton broker asks protection, the manufacturers sometimes have asked protection, and, gentlemen, I want to say to you that the farmers of the South ask a square deal and nothing more; that is all we ask.

Mr. LEVER. I want to ask you this question: Have you ever had this experience? You are a farmer, I presume?

Mr. NEILL. Yes, sir.

Mr. LEVER. Have you ever driven your load of cotton into your small town, the cotton market, before 10 o'clock in the day, and offered it for sale to the local buyer, who told you he could not give you a bid because he had not heard from New York?

Mr. NEILL. Yes, sir; I have had that experience.

Mr. LEVER. You have had that experience?

Mr. NEILL. Yes, sir.

Mr. NEVILLE. I understood you to say, Mr. Lever, 10 o'clock; that could not happen, because the time is different. I presume you meant 9 o'clock.

Mr. LEVER. Well, I will make it 9 o'clock; that would be 10 o'clock with us in South Carolina. What I was driving at is this: You have not been able to get a bid for your cotton from the local cotton buyer in your local market until he has heard from quotations in New York?

Mr. NEILL. Yes, sir.

Mr. LEVER. You have had that experience?

Mr. NEILL. Yes, sir.

Mr. LEVER. So you feel, then, that the spot prices in the South are in a large measure entirely regulated by future prices in New York?

Mr. NEILL. Well, not so much now as it has been. You take our State, and we get the spot prices from Galveston.

Mr. LEVER. You do recognize, however, the very great influence over spots by futures?

Mr. NEILL. Yes, sir.

Mr. LEE. What does it cost to carry a bale of cotton, per month, in a modern warehouse, provided with sprinklers?

Mr. NEILL. In a warehouse in the interior?

Mr. LEE. Well, the best warehouses?

Mr. NEILL. At Galveston it costs us $1 for the first month; that includes sampling——

Mr. CHAPMAN. Is that $1 per bale?

Mr. NEILL. Yes, sir; a dollar per bale; after that, 15 cents per month in interior warehouses.

The CHAIRMAN. Is that in commercial warehouses?

Mr. NEILL. Yes, sir; in commercial warehouses at Galveston. Now, in the interior warehouses their charges are 25 cents a bale for the season; in warehouses in the State they charge, some of them, 25 cents a month, and some of them 15 cents a month, and some of them 10 cents. The warehouses throughout the State regulate their own charges, but at the ports, why, the charges are the same.

Mr. CHAPMAN. Does the warehouse charge include insurance?

Mr. NEILL. Yes, sir.

Mr. MENDELBAUM. What do you mean by the ports?

Mr. NEILL. Galveston.

Mr. MENDELBAUM. You mean only the port at Galveston?

Mr. NEILL. I suppose it is the same at Houston.

Mr. MENDELBAUM. It is strange that storage rates in Galveston should be four times as much as in the city of New York, where real estate is so much higher than in Galveston. I can not understand that system.

Mr. HOWELL. I understood you to say that by reason of the anti-option law in Texas the producers have received a great deal of relief.

Mr. NEILL. Yes, sir.

Mr. HOWELL. Well, what are the conditions in the other cotton-producing States? Have they passed similar laws?

Mr. NEILL. Some of them have; I understand Arkansas has a law similar to that of Texas.

Mr. HOWELL. If all the cotton-producing States should follow the example of Texas the evils of which you complain would be relieved to some extent, wouldn't they?

Mr. NEILL. I think so; yes, sir.

Mr. LEE. We have the same law in Georgia, I think.

Mr. NEVILLE. Just for the sake of straightening the record may I be permitted to ask Mr. Neill a few questions? The railroad commission of Texas has prescribed that where the rate of freight on cotton is over 38 cents per 100 pounds the railroads shall pay the cost of compression out of their freight pay; isn't that so?

Mr. NEILL. Yes, sir; they do that.

Mr. NEVILLE. The common-point rate is 55 cents to Galveston and 49 cents to Houston; 38 cents is the rate at which the railroad commission makes the railroad company absorb the cost of compression?

Mr. NEILL. Yes, sir.

Mr. NEVILLE. So that on a freight rate of 44 cents to Galveston the railroad companies also have to absorb the cost of compression in their rates? Now, may I ask the names of your factors in Galveston whose warehouses handle that cotton?

Mr. NEILL. We ship cotton to W. L. Moody & Co., to John D. Rogers & Co., to Bedels & Co., and also to the F. Cannon Company.

Mr. NEVILLE. Your cotton is shipped to those Galveston people?

Mr. NEILL. Yes, sir.

Mr. NEVILLE. So that when cotton is sent to Galveston and the freight rate is over 38 cents, compression is taken into consideration, because cotton can not leave Galveston unless it is compressed?

Mr. NEILL. I think not.

Mr. NEVILLE. Yes, sir.

Mr. NEILL. That may be so, however.

Mr. NEVILLE. No steamship company will take a bale of cotton which is in an uncompressed state, will it, for foreign export?

Mr. NEILL. No, sir.

Mr. NEVILLE. You say that the warehouses charge $1 a bale the first month? Does that include the selling of the cotton for you when it is sold?

Mr. NEILL. Yes, sir.

Mr. NEVILLE. Now, the parties to whom Mr. Moody, Mr. Cannon, Mr. Rogers and the others sell that cotton, you do not know? Do they sell direct to the spinner?

Mr. NEILL. Well, that I couldn't tell you; I suppose when it suits them they will sell to an exporter.

Mr. NEVILLE. The reason there are no mills in Texas——

Mr. NEILL. Yes; we have 16 mills.

Mr. NEVILLE. I was just coming to that. Those mills are located in the interior, but there are none in Galveston?

Mr. NEILL. No, sir.

Mr. NEVILLE. There was one, but it failed because they could not get the labor to run it. Now, a farmer could really have made more money off of his cotton by putting it in his own warehouse than by shipping it to Galveston, couldn't he?

Mr. NEILL. You see at the time we made the first deal with Galveston the banks of our State refused to loan the farmers money on cotton stored in the warehouses, and we began the shipment of cotton to Galveston and put the interior banks in competition with the banks at Galveston.

Mr. NEVILLE. I understand that thoroughly, but I wanted to straighten out that one point. I wish you would, if you can, refresh your memory and see if that dollar a bale does include the factor's selling charges?

Mr. NEILL. Yes, sir.

Mr. NEVILLE. My impression was that it did.

Mr. NEILL. That included all the charges for the first month, and, in addition, that included the sampling, the weighing, the insurance, and the selling of the cotton.

Mr. NEVILLE. Yes, sir.

Mr. NEILL. Afterwards we were charged 15 cents a month, and no charge was ever made outside of that dollar for the selling of the cotton.

Mr. NEVILLE. So that the farmer paid $2.65 a bale per annum for carrying that cotton in Galveston, for the storage and insurance, in addition to the interest on the money that the factor advanced?

Mr. NEILL. Well, I haven't figured out the proposition.

Mr. NEVILLE. I only mention that, gentlemen, because there is no one more thoroughly in sympathy with the system of southern warehouses than I am; I am in thorough sympathy with that, and I think it is one of the best things I know of for the farmers. In my experience I have known of farmers to carry cotton for three years after production, and when they made up their minds to sell they had to pick off nearly half of that cotton by reason of the damage which had been done to it during that time.

Mr. LEVER. I understood you to say, Mr. Neill, that at one time there existed a future market exchange at Galveston. Did I under-

stand you to say that there was a future market exchange at Galveston, Tex., at one time?

Mr. NEILL. I think so; there was an exchange there.

Mr. LEVER. Is there one there now?

Mr. NEILL. There is an exchange there now, but it doesn't sell contracts.

Mr. LEVER. Do you know why it doesn't sell contracts?

Mr. NEILL. It is prohibited by law.

Mr. LEVER. Let me call your attention to this statement, in order to get it into the record. It is from the report of Mr. Smith, the Commissioner of the Bureau of Corporations of the Department of Commerce and Labor; he says an attempt was made in 1904 to establish a future market on the Galveston Cotton Exchange, and that an officer of the exchange explained the failure as follows:

> The trades were absolutely restricted to the legitimate business. I do not believe there was a speculative trade made during the whole time. For some reason the speculator and gambler did not operate in this market. This made it a very narrow market. The brokers feared that in such a narrow market they would become entangled in obligations upon contracts that would embarrass them. Holders of cotton did not utilize this market to any considerable extent for hedging purposes and it resolved itself practically into a purely spot business. You have got to have speculation. I think speculation is absolutely necessary. It was in our case, and I think it is everywhere.

I want to call your attention particularly to this proposition and ask you if you agree to it:

> You have got to have speculation. I think speculation is absolutely necessary. It was in our case, and I think it is everywhere.

The question I would like to ask you is whether or not, in your opinion, you believe that any exchange in this country can exist without illegitimate speculation upon the exchange?

Mr. NEILL. I don't know about that. The exchange at Galveston does exist, and there is no such speculation on its boards.

Mr. LEVER. It is a spot exchange, is it?

Mr. NEILL. Yes, sir.

Mr. HARDWICK. If we could have an exchange where there was no gambling and where only contracts were made where actual delivery was contemplated, it would help the farmer and the buyer and everybody else, would it not?

Mr. NEILL. In answer to that proposition, you take our exchange at Galveston, as I understand its procedure there. I have been told by members of that exchange that they make the market by an average of the sales that are made by the cotton factor, and that price is registered on their boards and is sent out to the people of Texas as the spot price for cotton. I understand that.

Mr. LEVER. So you do have a legitimate exchange at Galveston which is doing a legitimate business?

Mr. NEILL. Certainly; it is operating under the law; it is what might be termed a "ligitimate exchange."

Mr. NEVILLE. In other words, it is a building or a room where the receipts and shipments and all information pertaining to the cotton trade are posted?

Mr. NEILL. Yes; I think so.

Mr. SMITH. Is it not a fact that at Houston and Galveston the prices fluctuate in their spot sales exactly commensurate with the market in Liverpool, New York, and New Orleans?

Mr. NEILL. Yes; there have been fluctuations there. I understand, Mr. Smith, that a few weeks ago, when New York lost about 300 points, to the best of my recollection the cotton did not fall any considerable amount.

Mr. SMITH. It did not all over the South. The point I want to bring out to the committee is the influence of Liverpool as a world center, and New York as well; they are the points from which the price is practically set for the market of spot cotton throughout America.

Mr. NEILL. Certainly.

Mr. SMITH. Therefore it could not be possible for Galveston and Houston to reflect what might be the price and conditions as to speculation unless it could be reached by the world-wide influence from Liverpool and New York. Then you would know?

Mr. HEFLIN. Do you not believe that if we can eliminate the speculation in cotton, the selling of fictitious stuff called cotton in the New York Exchange, that then we would have spot-cotton exchanges where these contracts would be made and filled?

Mr. NEILL. I think so; yes, sir.

Mr. CONE. Is not the contract in New York a spot-cotton contract?

Mr. NEILL. I do not know that I ever saw one of those contracts.

Mr. CONE. I can assure you that I have sold those contracts and delivered cotton on them, and I have bought those contracts and taken up cotton on them.

The CHAIRMAN. If there are no further questions we will excuse Mr. Neill. I am informed that, so far as the proponents of the measure are concerned, they do not care to offer any further witnesses at this time, and when the committee meets again we will ask the representatives of the exchanges to be prepared for a hearing. It is a little early yet, but to begin the examination of a new witness now and interrupt him in fifteen or twenty minutes would make a break in his testimony that is probably not advisable, and I believe the committee will therefore adjourn now, with the understanding that we will meet promptly at 2 o'clock.

(Thereupon, at 12.10 o'clock p. m., a recess was taken until 2 o'clock p. m.)

AFTERNOON SESSION.

The committee reconvened at 2.15 o'clock p. m., Hon. Charles F. Scott (chairman) presiding.

The CHAIRMAN. I believe Mr. Neill desires to file a petition before the hearing begins this afternoon.

Mr. NEILL. Mr. Chairman, I have a petition here from Scurry County, Tex., which contains the names of C. R. Buchanan and 273 others. We would like to have it printed in the record.

The CHAIRMAN. Without objection, the petition, which is a very brief one, will be received.

(The petition referred to reads as follows:)

To Hon. R. W. Smith, Representative of the Sixteenth Congressional District of the State of Texas in the National Congress:

We, the undersigned voters of Scurry County, in the State of Texas, most respectfully request that you use your best effort and influence to secure the adoption and placing on the statutes of the United States of House bill 7521, known as the "Scott bill," and designed to prohibit gambling in agricultural products.

Mr. NEVILLE. May I ask how much cotton Scurry County raises?

Mr. NEILL. I do not know, sir; about 30,000 bales, I think.

The CHAIRMAN. As I stated before the hearing closed this morning, the proponents of the measure have no further witnesses to offer at this time, and we will therefore be glad to hear from representatives of the other side. Before proceeding, however, I would like to make this announcement, that inasmuch as this hearing up to date has been confined to the cotton question, and inasmuch, further, as the committee has been asked to defer until next week the hearing in relation to wheat and other commodities, it will be understood that that order is made; so that the remainder of the time this week will be taken up with discussion of the bill so far as it relates to cotton futures. I understand that Mr. Neville, of New York, is the chairman of the committee representing the cotton exchange from that city, and I would be glad if he would indicate the order in which he would like to have his witnesses heard.

Mr. NEVILLE. We have two gentlemen who come from the South and want to be heard, who are very anxious to get back home, and with the chairman's permission the cotton exchange will give way. Before we proceed, you stated that next week had been assigned to hear the Chicago Board of Trade and other kindred western institutions?

The CHAIRMAN. The president of the American Association of Grain Exchanges telegraphed me yesterday that a delegation from that association would like to appear here on the 18th, if it was satisfactory to the committee, and it seemed as if that would be the best arrangement we could make.

Mr. NEVILLE. Are you going to hold a session Saturday, in case we do not get through to-morrow?

The CHAIRMAN. Yes. Mr. Cone, did you wish to be heard now?

Mr. CONE. Yes, sir.

TESTIMONY OF MR. SOLOMON NAPOLEON CONE, OF GREENSBORO, N. C.

(The witness was sworn by the chairman.)

The CHAIRMAN. Whom do you represent?

Mr. CONE. I represent myself as a dealer in spot cotton. Incidentally, I am a stockholder in quite a number of cotton mills. I am also a member of all the different cotton exchanges of the world.

The CHAIRMAN. Mr. Cone, would you like to be allowed to finish your statement before submitting to interruption?

Mr. CONE. I would, very much, Mr. Scott, for the reason that I have never before in my life stood up before an audience of big people, and I am kind of gun shy, and I am afraid, if I am interrupted in the thread of my thought, I might not be able to do justice to the subject in hand, as I am unaccustomed to this sort of procedure.

The CHAIRMAN. I am sure that would be entirely satisfactory to the committee to let you finish your statement first, and then, if any members have any questions to ask they may do so.

Mr. CONE. I thank you. Mr. Chairman and gentlemen, you would have been afflicted with very much less of the speech that I am going to give you had I proceeded yesterday. As I came up on the train

night before last I made memoranda of all I had to say on the back of an envelope. I heard so much here yesterday that last night I sat up until 5 in the morning writing these few pages.

The CHAIRMAN. We are glad the subject seems to have broadened.

Mr. CONE. I thank you, sir. While I am a stockholder in a number of mills and have in the course of my experience had the management of one big mill, my present active interest is in spot cotton, of which I handle more than $4,000,000 worth annually. The cotton business is, I believe, without exception the strangest business in the world. My friends are oftentimes skeptical when I tell them I sell cotton most heavily when I think it is going up, and I buy heaviest when I think it is going down. The reason for this is the basis on which I trade, which I try to figure a safe one. When I sell cotton, I try to figure the basis at about what will pay me a reasonable profit on that cotton, and I sell it, and if my judgment is right, that cotton is going up; the light article, or the hedges, goes up faster than the heavier article, or spot cotton, and vice versa. When cotton goes down, the light article, or the future or hedge, goes down faster than the heavy article, or spot cotton. When I first started in the business, I took in with me a very old gentleman, who had had years of experience in the business before I undertook it; and when I called to his attention that we made more money when cotton went up after we had sold it, and made more money when cotton went down after we had bought it, he could hardly believe it, and, although my friend, Mr. Latham, whom I turned to, who had been in the business also for many years, verified that, I never could fully convince my partner, although I showed him the evidence on our books; the evidence of my books substantiated that fact, yet he always thought it was a matter of luck or chance, whereas it was not; it was a matter of calculation; it was a matter of simple economics.

To illustrate what I mean, take the crop before this year; we made the biggest crop that ever has been made since the earth was born. We made a crop that the United States Government and all those men who have charge of the statistics in the exchanges will tell you was the biggest crop ever made. It ran about thirteen million eight hundred and some odd thousand bales, and the statistics of nearly all agree. That was the year after the panic, or, rather, it was the year of the panic, and we came into that fall under very adverse conditions, and with an enormous crop of cotton. My friends from New York, and particularly Mr. Hubbard, who was formerly the president of the cotton exchange, kept hammering at me that the Yankees, extending from New York to New England, were constantly buying futures; that the West, the whole West, was constantly buying futures and protecting the market. I just thought, "There is something in this thing; I believe that these folks are going to win out." So I called up various mill friends of mine and said to them, "Here is cotton. They have futures down here to about 8.35 and I can sell you cotton on this basis. If you wish I will sell you up to August of this year at 9⅜ cents a pound, and the consumption of cotton is certainly going on at an enormous rate." I said, "Let me sell you your cotton up to August."

I remember one mill particularly, the Revolution Cotton Mill, of Greensboro, the president of which is one of my best customers. I

called his attention to this fact that these New York gentlemen on the exchange were constantly calling my attention to. He said: "I can make money on this cotton at these prices," and he backed himself with me for about 5,000 bales of cotton at $9\frac{3}{8}$ cents a pound. I paid for any amount of that cotton, gentlemen, $12\frac{1}{2}$, and for some as high as 13 cents a pound, and yet that was one of the most profitable deals I made that year. When he gave me his order for cotton I hedged myself; I bought futures in New York, sometimes in New Orleans, sometimes in Liverpool. But whenever I can figure that the future is compared to what it represents, there is where I put my hedges. I bought those hedges, and when the time came I delivered that mill its cotton. I delivered him cotton, as I say, lots of it, when I paid $12\frac{1}{2}$ cents for the very cotton I sold that mill at $9\frac{3}{8}$ cents a pound, and was glad to do it, for lots of that cotton—13 cents for some. But I made money on it, and why? Because the light article went up; the demand was such that the light article went up faster than the heavy article. It put me in this position—speaking of this gentleman here—I did not care what I paid for that cotton. I would just as leave have paid 20 cents for it. It was a matter of indifference to me; that is, in one respect. Of course, if the market had gone down I would have only made my normal profit. As the market went up, I made more than my normal profit, because, as I say, the light article went up faster than the heavy article. It put me in such a position that I was constantly in the market as a buyer. I had so many bales a month to deliver to that mill.

The other side of that question I pointed out yesterday in answer to a remark of Mr. Parker. When cotton is high I have frequently advised my mill friends, I have urged them, to buy their cotton, men who were bears; in fact, it is very rare, gentlemen, that you find a buyer of cotton who is not a bear; that is, particularly among the mill men. They are always using their utmost effort to depress the market and buy their cotton as cheap as they can, and I say that as a man who is close—I do not know any man who is closer to a great number of big mill men than myself. I am intimately acquainted with lots and lots of them, and I have their confidence, just as they have mine. The illustration I gave you yesterday of the reverse of that argument was that when they had cotton up here—I do not know whether you remember or not, but I will put it in the testimony again. I paid over 16 cents a pound for cotton I bought one day, and I would have bought more if I could have bought it on the same basis, a basis which was agreeable to me and on which I could figure a sure profit, as I thought. I bought from the firm of Weil Brothers and the firm of A. P. Loveman & Co., strictly middling—what we call "Group A," because there are a certain number of points in the South they call "Group A," and the rate of freight is exactly the same from the far South to any point within that group. I bought strictly middling cotton from those people at $16\frac{1}{16}$ cents. I did not consider it, under the situation, worth that much money, but I was able to sell futures against that cotton and did sell futures against that cotton at 16.43, and if those gentlemen over there had offered me their cotton, if I had had any evidence to show that they were reliable and had financial standing, I would have been delighted to have bought their cotton the same way, and hedged myself.

One of the gentlemen before you yesterday, Mr. Parker, in his testimony gave credit to the farmers' warehouses for the advance that took place in cotton last fall. Now, gentlemen, you will find that I asked Mr. Parker this question, if you will refer back to his testimony. I said to Mr. Parker, "Do you not believe that the largest amount of cotton was marketed in October, November, and December that has ever been marketed in your experience in proportion to the size of the crop?" You will find by referring to his testimony that he answered "Yes." Now, gentlemen, is that consistent? He gives the farmers credit for having put the price of cotton up through this warehouse system, and yet he admits he believes more cotton in proportion to the size of the crop was marketed in October, November, and December than has ever been marketed in his experience, and, gentlemen, I believe with Mr. Parker that that is a fact—that the farmers sold in October, November, and December, out of what they had to sell, more cotton than they have ever sold in history in those same three months.

I will tell you gentlemen why they were able to sell that cotton. Last spring futures in the different markets of the world—Liverpool, New Orleans, and New York—for October, November, and December, were at a basis that we could make the importers of cotton abroad a low price for their cotton, because we could buy hedges against that cotton so as to know that we could fairly well—if it is in the ability of man to figure out the value of one thing as compared to another—make a reasonable profit against those sales. The result was the foreigners bought from us more heavily than they have ever bought from us in proportion to the size of a crop. Against those sales made abroad—I do not do much export business personally, but Mr. Neville, who is a very large exporter, will bear out what I am going to say, although it did apply to my business locally—I was able to sell cotton for fall shipments at a price that was very attractive to mills. When we came up to fall our commitments for cotton were large. As I said a while ago, I would just as leave pay a farmer 20 or 25 cents for his cotton if I get my small proportion of profit out of it. We force ourselves as buyers into the market to buy that cotton. The same condition, gentlemen, I will tell you, is prevailing to-day, and I believe that those people who are looking for a low price for cotton next fall are going to be sadly disappointed. You will find, if you refer to the papers, that next fall futures are selling more than 2 cents a pound under the present crop. There are lots of people—mills—who can figure a profit on buying their cotton at the prices that they can buy it at. Foreigners have to buy even further ahead than we Americans do. They have to arrange, perhaps, for their ships to come over to be loaded at the ports of Galveston, New Orleans, Mobile, Savannah, Newport News, and a lot of other ports. They are able to buy that cotton and make those shipments far ahead of time, as they are compelled to do, to a certain degree, anyhow, and to a larger degree if they can do so satisfactorily, for the reason that we do not hesitate to commit ourselves for cotton, because we can get our hedge against it. It puts us in the market as buyers of cotton, and we are glad to pay these gentlemen. It does not make any difference; it can go up. In fact, we force the market up and up and up on ourselves.

But we spot-cotton men know what that future in New York represents; we know what that future in Liverpool represents; we know what that future in New Orleans represents, and we know it has to go up, gentlemen, if spot cotton goes up, because if they keep it too low—Mr. Brooks talked yesterday about manipulation putting cotton down 5 points at a time. Gentlemen, if they put cotton down that way by manipulation—I know what cotton is worth; I have seen that sort of thing tried temporarily, but, as a cotton merchant, I will telegraph my orders to New York or New Orleans to buy some of that stuff, and there are plenty of others who will come in. Manipulation can only succeed temporarily. The law of supply and demand governs. Instead of futures governing the price of cotton it is the law of supply and demand. This future system, gentlemen, enables us to be constantly in the market. As I say, I would rather buy when I think cotton is going down than I would ordinarily. Nothing in the world is certain but death and taxes. My opinion may be that cotton is going down; my judgment, I am glad to say to you gentlemen, is right more often than it is wrong—but I may be wrong. If I am right I make a trifle more, and sometimes a good deal more than my ordinary profits, as was the case in this recent market we had. On the cotton I bought at over 16 cents my profits were inordinate, but we do not have chances like that more than once in a lifetime. I do not think a chance like that has occurred since the Sully smash.

If you were to knock the pendulum of a clock and make it swing, it would come to its balance eventually, and just so does the price of spots and futures reach its equilibrium. In this break that occurred in New York recently I sold cotton for much less than I could buy it. I told my salesmen, "Boys, call up all the mills; sell all the cotton you can." I said, "Fill the order books." They called up and we sold—in fact, we did not have to call them up; the mills called us up, and we have orders on our books running clear to August, and that cotton we sold is still owned by those gentlemen over here. But why did we sell it? Because we knew that somebody is selling something in New York for less than it was worth. As each sale was made I telegraphed my broker in New York to buy me July cotton, or buy May cotton. And right there I can probably answer the question that Mr. Sims, of Tennessee, I believe it was, asked, why did I buy May and July instead of November or February? For the reason, in the first place, that I like to get merchandise—for cotton, in a certain sense, is merchandise, to me it is merchandise; it may not be to those gentlemen, but to me it is, just the same as any other merchandise, and I want to get in a position where, if I have to dump 10,000 bales on the market, or if I have to buy 10,000 bales, I can do it at probably one or maybe two points, with some infinitesimally small, fractional difference. It is astonishing, gentlemen, the execution I get sometimes on the biggest sort of orders when I go to New York, one way or the other. That market is so big that, without changing it one iota, I can oftentimes execute an order for 10,000 bales of cotton at practically no difference in price to what the quotation is as I see it on my board.

There is no day, no moment, no time, that a man can come to me with an offer to sell cotton but what I will buy it. Even after the close of the market we take our chances that the average run of the

market the year round will even itself. In other words, a man who has cotton to sell may come to me after the close of the market. I will base my offer to him on that cotton on the close of the market. If it opens up and I can get my hedge in higher, such is my profit; if it opens down, such is my loss, and on the law of averages that equals itself. If a man has 1 bale to sell he always will find me a buyer, if he has 5 bales or 500 bales. I will buy cotton in any quantity and at any time and at any price that affords me a reasonable profit. I will go so far as to say, to show you how the business is conducted, that I once made one deal of 2,000 bales of cotton on which my profit was only 20 cents a bale, but the business is so safe that, knowing that the business would go elsewhere, I actually handled the deal. In figures to-day that would amount to about $160,000. The business was absolutely so safe, I just thought, "I am not going to let that $400 go." It looks like poor business management—a $160,000 deal for $400—but it was just like picking up $400 in the street and putting it in my pocket, and if I had not made the trade some other fellow would have.

The spot cotton dealer tries to preserve a general position in the market. He may sell more cotton during the day than he has bought. He knows what his position was at the end of business the previous day. If he sells more than he has bought he buys futures to get his balance. Of course, sometimes, if it is a fractional lot, part of a hundred bales, he can not make a transaction governing that, but it is very rare you can get 30 or 40 bales long or short. But you preserve your balance through the medium of hedges.

One of the gentlemen present, Mr. Burleson, referred to a banker who claimed to have lost money in the cotton business.

Mr. Burleson. Oh, no; he did not say he had lost it.

Mr. Cone. Yes, sir. Well, I wish to say, Mr. Chairman and gentlemen, that in all businesses we have poor business men and good business men. You can take most any business you can think of, and you can find men who will make immense successes where other men make failures. I can not conceive how a banker can lose money in cotton if he conducts his business on a business basis. In the first place, that banker will lend me money. He knows just as well as I do what cotton has closed at that day in the big markets of the world. New York is generally taken as the standard in this country. As he knows I am good for whatever I take, he will lend me within 10 per cent of the value of any cotton I want to borrow money on. If that market should go down 10 or 20 points, he will ask me to keep that ratio equal, which I will cheerfully and gladly do. If we did not have this hedge system, in the first place, I do not believe that banker would be willing to let me have within 10 per cent of the value of that cotton, because it would be hard to determine the value of that cotton. The value of cotton is a known and fixed thing. I can give you the names of more than a thousand people who can wire you right here, this minute, within one-tenth of a cent a pound the value of any grade of cotton I will ask for, which they could not do if we did not have exchanges. If we did not have exchanges, gentlemen, the banker, instead of being able to lend me within 10 per cent of the value of that cotton, would want to know that I had bought my cotton mighty cheap. I would have to insure myself. How? I would not be able to handle cotton as I did that 2,000 bales on 20 cents a bale. I would

not be able to handle cotton on 50 cents a bale. Take cotton here at 15 cents a pound; what do you think would be a reasonable figure? I think it would take at least a cent and a half a pound off. I would not buy it from the farmer unless I could get a cent a pound less than I regarded it was worth. If somebody else wanted to do the business for less than that, as a conservative merchant, I would have to stand aside. In fact, I think it would put the majority of us dealers out of business. I do not think it would put me out of business, because I think I am strong enough and able enough to gather enough together to protect myself. But it would certainly put these thousand and one little fellows, who are only too glad to make that 25 cents a bale, and whom the bankers will stand by, out of the business. There is a world of little fellows in the South, gentlemen, who can handle, with a few thousand dollars, a whole lot of cotton, simply because the banker knows this man can hedge himself.

The exchanges of the world, gentlemen, gather information, true information, as true as it is within the power of human ingenuity to gather, from all over the face of the world. They gather it from India to Peru; they gather it from Brazil to the Kongo; they gather it from Egypt to China. This information is gathered by the statisticians of the exchanges, and it is disseminated by thousands of brokers to every one interested in cotton. There is nothing that I know about cotton that anyone can not know about cotton. For instance, right this minute, if you would wire out to Major Hardy, one of the best farmers in my county, living 15 miles out of town, what the spot sales in Liverpool were this morning and what New York opened at, he could tell you. I would not hesitate to give you any odds, for I know he knows, because he calls us up on his long-distance phone right at my office, as he wants to know. He also runs a mill out there. He grinds corn and wheat, and he generally asks what cotton and wheat in Chicago are doing; sometimes asks what Liverpool is doing. We generally know what Liverpool has done before the opening in New York. He has the information right there, and everybody can know as much as I can know.

Gentlemen, if you put the exchanges out of business, who would profit? Do you see the representative of Armour of Chicago? Do you see the representative here of the biggest spot dealer in the world, George H. McFadden, of Florida, who handles over 2,000,000 bales of cotton a year? Do you see the representatives of the big mill interests of the South? I guarantee that my own brother, who buys for his different mills over 100,000 bales of cotton, if he could control me, would not have me here this minute, but he would talk to you just as Mr. Parker did yesterday. If you put the exchanges out of business, gentlemen, those men can afford to pay for information and gather it; they would do it; they could have their own men. But do you think this information would be disseminated among these gentlemen? Do you think they would have it? But even if they did have it, do you think their power as merchants would be the same as that of these other big men?

I think, gentlemen, that this question before you is more an ethical and moral question than a question of commerce. It is a question that ought to be handled by the preachers of the country, by the ministers, by those who take up questions of the right and the wrong of things. I do not defend gambling. There is gambling attached

to everything. I am an old bachelor. Some of you gentlemen have married, doubtless happily so; you all look like it. You have taken bigger chances than I ever did. You are successful. But I would never even take a chance on that [laughter]. I do not know anything in life but what has an element of chance in it, speaking of that. I do not defend gambling. It is wrong; it is demoralizing when done to excess, but so is the most legitimate thing in the world. Any man who overworks himself will find he has a case of "nerves" before he gets through with it. You can study the most legitimate thing in the world and it becomes wrong when done to excess. There is an element of gambling, gentlemen, in most anything, an element of chance.

I have had mill men come to my office and inveigh against the fluctuations in the cotton market. Gentlemen, it is these very fluctuations that enable these very mill men to make profits. If we had a market that was stationary, everybody could figure everything down to the most minute degree. Then it would be mighty hard on the poor fellow. The rich fellow could grind the poor fellow out sure enough then.

There was one gentleman yesterday asking something about cotton goods. The question of shirts came up; I believe it was brought up by Mr. Brooks. I am a stockholder in a mill that makes as staple goods as anything I know of in cotton goods. I suppose you all know what gingham is. A staple gingham is as staple in dry goods as sugar and coffee. To give you an idea of what this advance in cotton means, comparatively, this piece of cloth sold last year at 4 cents a yard. Cotton was 9½ cents a pound at the time they sold those goods at 4 cents a yard, and, gentlemen, that mill made big money. That same goods is now bringing 5¼ cents a yard, only a cent and a quarter advance, but, gentlemen, let me show you what that means. It takes 6.61 yards of those goods to weigh a pound. The advance has been 1¼ cents per yard on those goods; in fact, they did have them up a cent and a half, but they were so greedy they had to come back a little. A cent and a quarter a yard means an advance in the price per pound of 8¼ cents. You can easily figure 6.60 by a cent and a quarter. But let us be fair. It does not really mean quite that much, because in manufacturing cotton the average mill estimates waste at about 15 per cent. So you will take off 15 per cent, not of the price of cotton at 15½ cents a pound, but 15 per cent on the difference between the price last year and this year. That mill is taking off a cent a pound and is getting a larger proportion of advance on that cloth than cotton has advanced. That does not apply to everything, but the average is mighty close to that.

Labor cuts a bigger figure in proportion to the value of many fabrics than the cotton itself, and in some instances so much that I know of mills making profits on cloths at the same price now as those cloths sold at last year with cotton 9½ cents a pound. They have not advanced their prices one particle and still they are making money, because the item of labor cuts so much bigger figure in the cost of the goods than the cost of the cotton does. It is true that does not apply to many fabrics, but that applies to some, and, Mr. Chairman, in a general way that might answer your question you were asking yesterday as applied to wool and woolens. One of these gentlemen, Mr. Brooks, yesterday referred to putting cotton down 5 points and 5

points by a system of wash sales—I think it was Mr. Brooks. In reply to that I wish to state that cotton has its value, and the value of cotton under the law of supply and demand regulates the price, and the future does not regulate except temporarily. By the system Mr. Brooks mentioned a temporary decline might be forced, but would recoil with loss against the manipulator. I, for instance, would be one of those to take advantage of such manipulation. If they manipulated the price in New York to less than cotton was worth, I would telegraph my order up there for what little I could, and sometimes I have telegraphed, when I thought the price was lower in New York than it ought to be, for right smart quantities.

To illustrate what can happen, in this break in cotton to below 14 cents a pound recently, I called up some of the mills with whom I stand close and advised them. I said, "Here, gentlemen, they have cotton too low in New York." I called up one mill president who I know has to buy a great deal of cotton out of this crop as yet. I said, "Here they have cotton in New York under 14 cents a pound. You know the farmers in the South will not sell it under 15. You believe, as I do, that we have a short crop. There is one thing certain, either cotton has to come down or the futures have to go up." I believe that the advance in cotton we have seen is legitimate; that it is a result of the law of supply and demand, and so did these mill men. I said, "If it comes to the worst, here they are selling you July cotton at the price of the spot month. In other words, the man who sells you those futures, Mr. S., will sell you and carry your cotton for you until July at the price of January cotton." He said "Buy me 1,500 bales." I telegraphed an order to one house for 1,000 and to another for 500, below 14 cents a pound. Here is what the man who sold him those futures did. He let him carry $120,000 worth of merchandise. He made him a present. He sold him that merchandise at the same price he bought July cotton that he would have bought January for. That man who sold him those futures, knowingly or unknowingly, did carry for him until this recent rise—which my mill man could not resist the profit of—he would have carried for that mill man until July $120,000 worth of merchandise without charging him one cent of interest, as it were, and without charging him any insurance or storage charges. The interest at 6 per cent on $120,000 is $3,600, is it not? That is exactly what occurred. But it was but a few days when the market was to come back like the pendulum of a clock, and my mill friend could not resist his $6,000 profit, and he told me to let them go, although he made a mistake; it has gone higher since.

In my town there are about ten buyers for cotton; most of them buyers of small means. If you eliminated the exchanges they would, almost to a certainty, to my mind, gentlemen, be eliminated. If they tried to continue, they could only do it by offering some greater advantage than the big fellow would, and the result would be that some time there would come along some upheaval in the market they could not stand under, and to the board they would go. But the bigger man would have things, in my judgment, gentlemen, all his own way. As I say, the only big mill man I have seen here was in favor of this bill.

Mr. Chairman, you spoke yesterday of receiving 200 letters, only 200 letters, and here is an organization covering 29 States. It seems

to me that if I were running that organization you would have received 200,000 letters or 2,000,000 letters. I hardly knew this thing was going on myself until I was advised by friends. It seemed really, when I heard of it, absurd.

One of the gentlemen yesterday—I believe it was Mr. Brooks—intimated that the dealers in cotton on the cotton exchange knew the way they were going to make the market go. Allow me to illustrate the impossibility of this. Some of you, doubtless, have heard of the San Francisco blacksmith who offered to shoe a horse, eight nails in each shoe, for 1 cent for the first nail and double the price each time to the last nail, and if you will just take pencil and paper you can figure the enormous number of millions of dollars that last nail cost. I think it is something like thirty some odd million. If you could tell me in one single day what the price of cotton was going to be in any market of the world, I would guarantee, if you told me what the fluctuations would be from one ten minutes to another, I could take a $100 bill and buy out John D. Rockefeller. That is not on any one day, but many days of the year. You see here a great number of New York Cotton Exchange men, all of whom I know by reputation, and some I have known personally for years. If any of them are very rich, I have not heard of it.

I want to say, gentlemen, in regard to this hedge business, that it is a thing that no man can know the exact proportion of—what speculation represents as compared to actual dealings. I can give an illustration. One day 100 bales of cotton exchanged hands between five dealers in my town in less than two hours. I was the last man who bought that cotton. Every man made a profit on it, to the best of my knowledge and belief, and I shipped that cotton to a mill. I presume the other men had hedges, just like myself, on that hundred bales of cotton, if they handled it legitimately. I do not know what hedges existed on that hundred bales before it was brought up from Greensboro, because it came from Greensboro. But if each man handled that hundred bales legitimately, the chances are, unless it was in the case of the first man who handled it on a brokerage pure and simple, that cotton was unhedged that day four or five different times.

This hearing reminds me of some mediæval history I have recently read relative to the house of Fugger, whom most of you gentlemen have doubtless read of or heard of or know about. This house became enormously rich four hundred years ago in Germany. In fact, they became the richest people in the world, and, if you could figure the purchasing power of money then as compared with now, I do not believe any fortune exists to-day that is equal in its power compared to that fortune. At that time this house became rich, first, through its interests in manufacturing textiles, and from that it got over into the mining industry, but it became so rich that it had to have an outlet for its money. The ecclesiastical courts of that day and the people of power and thought determined that it was against right and un-Christianlike to demand or require interest on returns, and there is much history about that. By referring back any of you can see those courts, by the ablest reasoners of the age, decided that it was unfair to demand or to require a single per cent for the use of a loan of money. This house, notwithstanding strenuous efforts to set that right aside through more than one convention, could not succeed.

After great debates that were held by these intelligent men they decided it was not right. Nevertheless, gentlemen, at that time it was right for land to bring a return, and it was right for property of any other sort; yet those men, those intelligent men, could not see that it was fair for money to bring a like return. You can easily figure to-day how that created a hardship on a lot of people, and I think this question itself bears a very strong resemblance to that, in looking at this matter from a broad point of view.

Mr. BEALL. What is your application of this story?

Mr. CONE. It is the idea, sir, to show that people oftentimes do not know what is best for themselves.

Mr. BEALL. That is, on the theory that the producers do not know, in this instance, what is best for themselves?

Mr. CONE. I believe they do not.

Mr. BEALL. And the independent speculator does?

Mr. CONE. No, sir; I do not say that the independent speculator does, either. I say that the man of broad thought, the man who cares for things above money and looks at the question from an absolutely impersonal point of view—for, gentlemen, I can retire from business to-day and travel around the world and live considerably easier on what I have, but I care for right more than I do for money.

Mr. BEALL. Do you think that gives you the impersonal view that the ordinary producer, the man who toils, has?

Mr. CONE. I am talking about this absolutely impersonally; yes, sir.

Mr. BEALL. I am perfectly content for you to look at it that way.

Mr. CONE. Property in land could bring returns, but money which could buy property or lands should bear no interest. I guess a man had to have a mighty good moral standing in that time to raise a little loan at even some unknown usurious rate of interest, for the penalty was severe for charging even 1 per cent.

I may say, gentlemen, in regard to an experience Mr. Parker related yesterday—if I understood him correctly—that my experience with Mr. Theodore Price was quite the reverse of his. In that year I spoke of, the "great storm year," as it is known among cotton men, I oversold myself on low-grade cotton. I oversold myself on what was the lowest grade deliverable on the New York Cotton Exchange, "low middling stains." There was a lot of that cotton in the South when I first sold it. I sold a great deal, and when I got up to the end of my orders I found that I had oversold myself 200 bales. It is true it was only 200 bales, but I could not get it in the South anywhere. I tried all around. I went up to New York and saw Mr. Theodore Price in person. Mr. Price was glad to let me have that 200 bales of cotton, and actually broke 7,000 bales on contracts and selected that 200 bales of low middling stains for me and shipped it back South.

Mr. BEALL. Let me ask you about Mr. Price. He is a member of the New York Cotton Exchange?

Mr. CONE. I do not think so.

Mr. BEALL. What exchange is he a member of?

Mr. CONE. To the best of my knowledge and belief, he is not a member of any exchange, but I do not know. Some of these gentlemen from New York could answer that, I guess.

Mr. SPRINGS. He is not a member of the New York Stock Exchange.

Mr. BEALL. Is that the Mr. Price who received some information from one Mr. Holmes, who was connected with the Department of Agriculture down here?

Mr. CONE. It is the great cotton Price, whose reputation is kind of bad among old Cotton Exchange people, I believe.

Mr. BEALL. Does that exclude him from the exchange?

Mr. CONE. I do not think many people up there want his business. I do not know. These gentlemen from New York could probably tell you.

The CHAIRMAN. I think it would be better not to pursue that inquiry. Before Mr. Beall came in, I may say for his information, Mr. Cone asked that he be not interrupted until he has finished his statement.

Mr. BEALL. I beg your pardon; I did not know that.

Mr. CONE. Mr. Chairman, if you will pardon me, you asked Mr. Parker a very pertinent question yesterday—I think it was you; if it was not yourself, it was the gentleman, perhaps, at your side [Mr. Cocks]—that if he wants a specific grade of cotton, why does he not go to the dealer for it? I was up in New York about the 10th of December, and they offered to break up contracts for me and put them on f. o. b. cars if I would pay them 25 cents a bale only, and ship that cotton south for me. They would give me the grades I wanted. I ship cotton from Mr. Parker's neighborhood to New York. To go up to New York and buy cotton is not a natural procedure. Mr. Parker wants to buy that cotton in New York. Why? Because he wants the best, and the grade of strict middling cotton, the average strict middling cotton, is a mighty high-grade contract. He wants the best at the price of the worst. A spot-cotton dealer like myself uses many grades of cotton. We have mills that will buy low middling stains; we have mills that will buy strict low middling tinges; we have mills that will buy any grade of cotton. Mr. Neville there, who is reputed to handle about $50,000,000 worth of cotton a year, can use any grade of cotton. He can take those contracts and split them up, and he can give Mr. Parker what he wants, and he can give me what I want, or he can give any mill what it wants; and, gentlemen, it is worth something to do that.

The trouble about lots of people is that they want the most desirable on as good a basis as the least desirable. Supply and demand govern the price of cotton and all products, and any attempt against this law can have but a temporary effect. That is the reason few corners are successful. The situation to carry through a corner successfully must be a remarkably short supply proportioned to the demand. I want to say to you gentlemen that if Mr. John D. Rockefeller, if the situation were against him, were to try to corner cotton, he could temporarily, doubtless, make a success of it, but what would be the result? This is a bad time to give an illustration, because right now we are facing a remarkably short supply and we are having more than a good demand, even in proportion to the supply. But you take, in an ordinary year, if Mr. John D. Rockefeller himself tried to corner cotton, here is what would happen: He could put the price of cotton up, but he would get the cotton, and when

he attempted to market that cotton and sell that cotton, he would lose more than he would have made in his corner, and if you will read the history of all corners, you will find that when they did not have a short supply and a big demand—in fact, in ninety-nine cases out of one hundred—I believe the corner has failed. He might have temporarily succeeded in his corner, but if his ultimate profits were proven, you would see that they were on the wrong side. I was advised to buy coffee about four years ago because the Brazilian Government was going to buy about 10,000,000 bags of coffee. I said to my friends, "Gentlemen, that can not succeed. They have been making too much coffee in the world, and the very consciousness that the world has that that supply overhangs the situation will prevent the rise," and, gentlemen, if you will look up statistics—that has been about four years ago—you will find there has been no hope for coffee until recently. But now I believe there is a spark of hope, because I believe this year it is generally believed they have made a short crop. But I doubt even now they can succeed in any rise unless they make another short crop on top of this short crop, which will put the whole coffee situation back on its feet again, perhaps.

Regarding town buyers dividing up their business, which a gentleman spoke of here yesterday, I would like to know how on earth the putting of exchanges out of business will help a situation of that sort. In fact, I would like to know how, if the exchanges were put out of business, you would prevent just the reverse of that. You take, for instance, the men who sell cotton in that town. If they will wire over to me or any other of the ten buyers they can always get a fair offer for their cotton, and I can point them to a thousand other buyers who will make them a fair offer for their cotton, for we are beholden to no one. If their own buyer will not offer them a fair price, they can go anywhere outside of their own town. But you would have very few buyers, eventually, in proportion to the amount offered, if you put the exchanges out of business. It looks to me like it would be mighty easy for a continuation of that sort of thing. Besides that, those men in that town know what cotton is worth, because they get all this information that is disseminated by these exchanges and by the brokers on the exchanges, and I find my experience in dealing with the average set of cotton men is that they know about as much about cotton as I do. Personally, I, or the buyers in my town, will buy from any merchant or dealer anywhere. I do not say "farmer," in that, because my experience, gentlemen, with the farmers has been mighty disastrous to me. I even compete with my own brothers in buying cotton, and they are my own best customers at the same time.

If we had no exchange to protect a farmer with figures and knowledge, and to make me be good, gentlemen, I am only human, and I think I would give way to temptation, and I think Mr. Parker would, too. I want to say—and I will bear evidence to what Mr. Webb told you gentlemen yesterday—that at least 90 per cent of the mill men are bears. They become, for some causes which I have never tried to analyze, so that they are always against the market. You leave the markets to them, gentlemen, and if we made a great big crop of cotton I think they would let Mr. Farmer carry the cotton until it tired him out anyhow, even in spite of his

warehouse. As I said, the farmer can sell cotton any day, and he can find a buyer for it any day, as the situation now exists. I do not believe you would find a condition like that if you had no exchanges.

I buy from the South, speaking of contracts, even running contracts. I buy a great deal of cotton that is shipped to me from all over the South. I have cotton shipped to me from Texas, Arkansas, Georgia, Oklahoma, Alabama; there is not a State in the South from which I do not buy cotton, even outside of my own State. There is very rarely a shipment of that cotton that comes in of the grade sold me. We have to pay for cotton before we ever see it. They draw on us for that cotton, sight draft, bill of lading, and it is not one time in a thousand but that the draft gets in before the cotton.

Speaking of the number of grades deliverable on the contract, we have had in single shipments much more than ten grades of cotton delivered us on a contract. There are many people who are not judges of cotton, who do not understand some things about it. For instance, a lot of cotton may look absolutely white, but contain some yellow spots. It can be the finest sort of a grade of cotton, but if it contains those spots the value of that cotton is hurt. It is hurt much more materially, really, than the small amount that we claim it is hurt. For instance, you will see, perhaps, a lady's fine shirt waist; or take, for instance, the white shirts we wear, which require pure white cotton. The mills that use the cotton, if they find in the shipment of white cotton that is sold them some of this cotton with just these little spots in it, they are just as hard put to use that cotton as if it was all yellow cotton, or "tinges," as we call them. I think that is all I have to say, Mr. Chairman.

The CHAIRMAN. I would like to ask you a few questions, if I may.

Mr. CONE. Certainly, sir.

The CHAIRMAN. The whole drift of your argument, as I have caught it, has been to the effect that a future market was necessary in order that cotton dealers might hedge, and in that way be able to buy cotton whenever it is offered, with the assurance of suffering practically no loss. You stated that a future market has made it possible for you to sell on a rising market and buy on a falling market. You stated that in some recent cases your profits had been even inordinate, in view of the peculiarities of the future market. Can you give any reason why a dealer in cotton should have a future market, in order to protect himself against loss, that does not apply also to a dealer in wool, or a dealer in iron, or a dealer in cattle? To give you a concrete illustration: A friend of mine last fall went to Texas and bought 700 or 800 head of young cattle, borrowing the money necessary to carry them over the winter, and shipped them up into Kansas, with the expectation of feeding them and turning them off on the June market. He made the deal absolutely on his own judgment. There is no future market in cattle whereby he can protect himself. and he stands to make a profit if the market is right, and he stands to lose a large sum of money if the market goes off. Is there any reason why he ought not to have a future market in order to protect himself?

Mr. CONE. Mr. Chairman, in the first place, in speaking of this question as applied to the hedge dealer, I have done my duty but poorly if I have created the impression on you that this market was

of value—that its principal value was—to the hedge dealer in cotton. The great value of the hedge market is that it enables the placing of a crop, the value of which is about a thousand million dollars, or in that neighborhood. It places that crop—the future markets of the world -have placed it—so that there can be no great forces for depression at any time against that market, because you can spread these things, owing to the thousand ramifications that surround us dealers, as well as the mill men and the hedgers all over the world. We can spread our business; we can go right in and spread the thing over a whole long period of time.

To answer your question as applied to wool, I can only remember back to the time I was a drummer on the road in the wholesale grocery business in Baltimore, and I bought dried blackberries from farmers. When I bought them I used to go out and sell groceries and buy berries—we did not have any exchanges at that time—and I bought them pretty cheap. If the market went down I would sell for a reasonable margin to guarantee me against possible decline before it could reach the price at which I would suffer loss.

The CHAIRMAN. Then, I gather your suggestion of the future market in the cotton trade is that it creates a steadier market for cotton, for one thing, and, on the average, a higher market?

Mr. CONE. Human nature, sir, is essentially optimistic, and human nature at the same time is essentially selfish. If you leave this matter between the intelligent mill men—for on an average they are more intelligent than the farmers by far with whom I have come in contact—if you leave this question simply between those two, I know who will lose.

The CHAIRMAN. That is hardly an answer to my question, but it conveys your reason, and I am glad to have it. Just one word further on the matter of this hedging business. You stated that in one of your transactions you made an inordinate profit. It was common report some weeks ago that Mr. Patten had come down to New York, and with the laurels of his Chicago wheat deal fresh upon him, had picked $5,000,000 out of the New York cotton market. Assuming that to be so—and I will not say whether it is true or not, because I do not know—but assuming that to be so, and remembering your own statement about your own profit, who paid the $5,000,000? Who was the fellow on the other side, and who suffered the inordinate loss that enabled you to make an inordinate profit?

Mr. CONE. In the first place, Mr. Chairman, I want to say this, that I regard Mr. Patten as one of the ablest merchants of the age. Mr. Patten, from the best of my observation, and I have observed the actions of that man for years, is most generally a bull on the market—occasionally a bear. I have noticed his action in movements in oats and corn—oats is a favorite of his. Last year was the first time that any big operation of his in wheat came under my observation. Mr. Patten sees an opportunity, and, as a great merchant, avails himself of it. It is a matter if he can buy more futures, more May cotton, and, candidly, I believe Mr. Patten is going to give you a little corner in May cotton; that is my honest conviction. He is a smart man.

The CHAIRMAN. Could he give us that corner if there was no future market?

Mr. CONE. Yes, sir; he could corner the actual stuff.

The CHAIRMAN. But it would take a good deal more money to do it, would it not?

Mr. CONE. Mr. Patten, as a man of great wealth—for he must be a multimillionaire—could borrow within $10 a bale easily of the value of cotton, and it would not take so much wealth as would appear on the surface in that way.

The CHAIRMAN. Dropping the question of the corner, I do not want to get away from the question of his profit. If he had been able to actually buy, say, 5,000,000 bales of cotton, and had sold that cotton at a profit of a dollar a bale, nobody would have questioned the transaction, and nobody would claim that somebody else had lost the money he made. But, as a matter of fact, we know that he did not in all probability transfer and did not deliver a bale of cotton, and no one who bought his contracts received a bale of cotton. It was purely a transaction in margins. Does it not follow, therefore, that somebody must have lost the money he made?

Mr. CONE. Mr. Chairman, a great deal of that money is lost in a way I call legitimate, according to my judgment, and a great deal is lost in a way I consider illegitimate, but illegitimate in the way that commerce runs. Wherever there is a chance to gain, right there you will see the selfish human being actuated either through one motive or another, most of which are not for the best, trying to make profit—or many of which are not for the best. To illustrate: I frequently buy in the spring of the year a great deal of cotton for fall delivery. I was unselfish enough last fall—and I can bring you affidavits to prove that, if you wish—to advise my friends in the country not to sell their cotton. Yet, in spite of that, about May, when it got up to about 11 or 12 cents, they could not resist it. They said, "We want to sell it, anyway." They felt they could make a profit. I told them then that I thought cotton was going to 15, and I can bring you affidavits to that. When cotton was bringing 9 and 10 cents I thought it was going to 15, for various reasons which I could give you. Last fall I did not hedge against that until the price got above 12, although I thought it was going to 15. I still put my futures out against it at 12 and a fraction cents. Ordinarily I do not wait to put my hedges out, but I was so dead sure that cotton was going higher, and at that time the cotton was so cheap, my first 6,000 bales of spot cotton cost me less than 10¼ cents a pound. Ordinarily I sell those hedges at once, and in that way there is a great deal of confusion on the short side going into the market, and, in fact, to-day there exist in the world I don't know how many bales, probably six or seven billion bales of cotton, in the hands of mills, in the hands of dealers, and in the hands of farmers. The farmers rarely hedge; the mills and the dealers do hedge. For instance, I represent one mill that has now short hedges against its cloths and against its cotton on hand of more than 10,000 bales. In New York somebody has bought that cotton; I do not know who has bought it. It is a legitimate transaction on the part of the mill, because it is against its cloths which it has unsold, and it is against its cotton which it has not spun. Like myself as a dealer, that mill tries to preserve an equilibrium. In fact, that mill has pursued a system of hedging that way, and it has probably sent to New York; it made big money last year in spite of the fact that it constantly sends to New York a great deal of money. If it had not hedged, its

profits last year would have been simply fabulous. It sends to New York constantly against these hedges money. I send it for them myself in many instances, and that money went to the man who had the other side of the deal.

As regards speculation, as I say, what proportion represents speculation and what proportion represents dealing is past me to say.

The CHAIRMAN. To come right down to brass tacks, we all know, I think, that whatever sum Mr. Patten won—to use that term just as if we were playing poker—whatever Mr. Patten won in the cotton market somebody lost—some other man who was a speculator just the same as he was.

Mr. CONE. Pardon me, Mr. Scott; just as in the instance I mentioned, no one has lost. That mill has sent to New York, as I know of, more than $100,000, and still I am a stockholder in that mill, and it made dividends I was proud of.

The CHAIRMAN. It will be admitted, I think, that the cotton exchange, as now administered, has some evils. You said yourself that, in your judgment, it was an ethical and a moral question, to a considerable extent. Can you give any reason why an institution which admittedly has some evils, which permits men to speculate with money which they do not own, or with money which they can not afford to lose, which involves men in bankruptcy sometimes, and sometimes is worse than bankruptcy—can you tell me why such an institution should be maintained in order that you, as a cotton dealer, or your brother as a cotton manufacturer, should be able to protect himself against a mistake in judgment?

Mr. CONE. I would like to answer that by a question. Can you tell me, on the other hand, why the best should suffer by the action of the worst, Mr. Scott?

The CHAIRMAN. Pardon me; that is not the question; at least, it is not what I am trying to get at, and I am asking in all good faith, because I want to get your views upon it. Men engaged in other businesses do not have any future market on which to hedge. I am in the newspaper business. I can not go somewhere and protect myself against a falling off in the business somewhere along the line. An iron manufacturer who must take his orders a year or more before he can deliver the goods can not go into the market somewhere and guard himself. What peculiar divinity hedges about the cotton business that should make it necessary to maintain this institution in order that the man engaged in that trade should not take the chances that men engaged in other businesses take?

Mr. CONE. Mr. Scott, you are speaking of the newspaper business. I do not know much about it, but I think I have read a little something in the papers about these big profits you are paying on paper that you buy.

The CHAIRMAN. If we do that it is because our judgment is good and our management is good. It is not because we can go into some market and protect ourselves with a future of some kind.

Mr. CONE. Mr. Scott, it is simply a matter of evolution, as it were. This question impresses me as being whether we are going to have an evolution forward or an evolution backward. If you were to put the exchanges out of business, to the best of my knowledge and belief it would be like the conditions when I used to travel on railroads, and in a lot of counties in which I traveled there was great

opposition to the railroads because the farmers could not get to send their wagons to the railroads to haul that trade away.

The CHAIRMAN. Pardon me; you reply, but you do not answer. I am trying to get a direct and categorical reply to the question as to why it is necessary for the cotton business to have a future market when it is not necessary for the iron business to have one. We will confine it to those two.

Mr. CONE. You use the word "necessary." If you want to put the exchanges out of business, I want to say that I would make more money. I assure you on my honor as a man. I hope God may kill me on the spot if I don't believe I would make more money by far.

The CHAIRMAN. Even that is not the question. We will admit, using your own words, that the future market in the cotton business is an evolution, as you doubtless believe, an evolution from a worse condition to a better condition, as all evolutions ought to be. Why is it that the same thing which you seem to think has been such a boon to the cotton trade has not "evoluted" in the iron business?

Mr. CONE. So far as that is concerned, the iron business is a business I do not exactly understand, in the first place. However, I do know there is a trust in iron, a steel trust, which controls considerably the larger part of the iron ore in this country, and I doubt if much could live in competition against it. Further, I believe there are future contracts to be bought or sold in iron certificates, and, as it is a matter to which I have never given study or thought, I am not so sure, but I think you will find you can buy iron certificates.

The CHAIRMAN. Let us take the hay crop. Why is it not necessary to have a future market in order to protect that?

Mr. CONE. As I said before, Mr. Scott, it is not necessary; this exchange is not necessary. But I will tell you I believe it to be a benefit. I believe it to be a benefit to many men, and a greater benefit to them than anything to any other one body of men I can make clear to you.

The CHAIRMAN. The two parties directly in interest in the case of cotton are the producer and the spinner?

Mr. CONE. Yes, sir.

The CHAIRMAN. They could get along without the broker, without the cotton dealer at all, could they not?

Mr. CONE. Certainly.

The CHAIRMAN. Then, if the two parties who are most directly and vitally in interest are agreed on the proposition that the present system is bad for their business——

Mr. CONE. Then, sir, it is your duty to protect them.

The CHAIRMAN. Then ought not their judgment to control, rather than the judgment of a man whose only interest is in the commission he has in handling the goods?

Mr. CONE. I think, sir, you as a statesman ought to occupy the same position that the statesmen did in the time of the house of Fugger, those ablest people of the day, who were so ignorant as to say that money was not worth its interest bearing return. You should protect those who are their own worst enemies.

The CHAIRMAN. You said a moment ago that the mill men with whom you dealt were more intelligent than the farmers—which is probably true, without any reflection on anybody—it will be admitted that the mill men are fairly intelligent people; do you, then, think that they ought not know what is to their interest?

Mr. CONE. That is the very point.

The CHAIRMAN. Or do you think they are asking for this legislation because they do know it would be to their advantage?

Mr. CONE. I think, sir, that at the bottom of their hearts—you know sometimes a man befogs or beclouds his mind to the true reason of things—but I do know that in their hearts these shrewd mill men know that if they have made a great big crop of cotton they will let Mr. Farmer carry the cotton, and if they have made a short crop they would be able to find that out and there would be so much less competition; they could pick a great big part of what they wanted before the truth became known to the world.

The CHAIRMAN. While you give them credit for their intelligence, you impeach their candor or good faith. Mr. Parker said here yesterday it did not make any difference to him——

Mr. CONE. Pardon me. I said oftentimes a man, through his prejudices, befogs and beclouds his own reason.

The CHAIRMAN. I would like to get your opinion as to a sentiment expressed by Mr. Parker. He said that, as a mill man, it did not make any difference to him what he paid for cotton, because he could fix the price of his goods to correspond. The damage that he said he suffered from the future market was that it created fluctuations, frequent and violent fluctuations, which made it difficult for him to maintain the parity between the cotton and the goods. For instance, he said that this recent heavy decline in cotton had created the impression all over the country that cotton goods ought to be sold a great deal cheaper than they are being sold, the people forgetting that they were made when cotton was high. Do you think there is anything in that?

Mr. CONE. Mr. Scott, in reply to that I wish to say that I have sold more cotton goods than most any man I know of. I have charge of the office of one of the biggest commission houses in the country, or rather, I will put it in this way, the western department of the Cone Exporting and Commission Company, and the sales were so large that the president paid me even a larger salary than he received himself. In Chicago I did the same. Here is the situation as regards cotton goods: I want to say to start with, that I rarely have seen a mill man a bull. I have seen many mill men since the 1st of January who were surprised to find they had come out as well as they did last year. I wish to say further, that it is rare that a mill man admits that he is doing well. They are the worst lot of pessimists I know of. The only year I can remember that they could not help saying they were doing well was the year prior to the panic, when lots of them made over 100 per cent per annum. A year prior to the panic the whole world seemed to get speculation mad in everything, not only in cotton but cotton cloths, in fact, you can turn to most anything you can think of, real estate or what not; spice, coffee; they did even put coffee up a little in spite of the fact the Brazilian Government had bought 10,000,000 bags. I will tell you a fact; I do not know that it governs to-day, but when I had charge of the western territory of the Cone Exporting and Commission Company there were several houses in the West, jobbing houses, that would buy more goods than the whole South put together, not only in Chicago, but in St. Louis.

I used to have a fair average idea of the volume of business that any house in the West would do, whether it was in St. Louis or Chicago, or Kansas City, many of which houses you may not doubtless know the names of. Those jobbers got this same fever of speculation in goods. They were all making a lot of money, though, and there was an excuse for their feeling optimistic and for their high prices. They bought a lot of stuff. Then came along the panic, and they had contracts running beyond the panic. Some of the houses did their utmost to cancel those contracts, and a good deal of force was necessary to make some of the highest toned houses in the business live up, not only to their legal obligations, but, what is far more than that, their moral obligations. But they suffered. The prices went down something awful. In those big houses of the West the buying is very rarely done by the head of the house. The head of the house formulates the policy of the business, and he and the credit man, the financier, give to the buyers their orders under which those big buyers operate. I have gone to St. Louis and in a single trip I have placed over five million yards of goods, enough goods to make a dress apiece for five hundred thousand women. And those buyers can not buy except what they are compelled to buy at times. I have kept in close touch with that business, because I am a stockholder in a concern that sells the output of about forty cotton mills, and I have not seen anything that borders on the order of speculation or forward buying to any degree since the panic.

Coming after that, here is this high-priced cotton, and they have now a new basis for the selling of goods, one that they are unaccustomed to. Here is a situation that is peculiar. Goods which ordinarily retail at 10 cents a yard that jobber now has to ask a price—the jobber, for instance, in St. Louis has to offer to the merchant who comes from Texas or Kansas or some other State a price for that goods that the retail price now will be 12½ for. We are right now on the ragged edge. This is the time of year—January, February, and March—the buyers come to the big markets. The buyers for the retail stores are right now coming to the stores of New York, Chicago, and St. Louis and other big cities, and within sixty days will settle the question whether cotton is going up or down, and nothing that the New York Cotton Exchange does or the farmers do will prevent it. If they do not take hold of cloth inside of the next sixty days, cotton will go down in spite of everything you can do. Personally, I think they are going to take hold of it. I think they have starved and stinted themselves so much that they have to come in, and I think the wealth and prosperity are very great, notwithstanding you read in the papers about it costing so much to live. I have hunted and I can not find anybody down my way who is not getting along very well. They talk about lack of prosperity; I can not find it. I believe they are coming in, and within the next sixty days, as buyers. They have just starved themselves so long, and if they do come in cotton is going to 20 cents, and if they do not, cotton will go down.

The CHAIRMAN. You said in the course of your chief statement that the law of supply and demand operated in spite of the procedure on the boards of trade. I believe you said that if a man could know ten minutes in advance what the fluctuation would be on the cotton market he could take $10——

Mr. CONE. One hundred dollars, I believe I said.

The CHAIRMAN. And in a little while buy out Mr. Rockefeller?

Mr. CONE. You can easily take pencil and paper and figure that out for yourself.

The CHAIRMAN. How do those two statements hang together, that the operations of the boards of trade do not interfere with the law of supply and demand, and yet that the fluctuations within those, which take place within ten minutes, are so great that an advance in them would make a man a millionaire in a little while? Conditions as to supply and demand can not change every ten minutes, can they?

Mr. CONE. There are thousands of things that are so minute that govern the principles of fluctuation there is not a mortal man that can tell what governs it.

The CHAIRMAN. Do you believe there was any good cause except the operation of the law of supply and demand for the recent slump in cotton of $15 a bale in two weeks?

Mr. CONE. That slump did not put the price of cotton down hardly any. That slump was caused through the greed of humanity. Human beings are essentially cowards; that is, I mean to say the average human being is cowardly. It is easy to buy when a thing is going up; everybody has courage then. It takes a brave man to sell when things are going up. And it is easy to sell when things are low. It takes a brave man to buy when things are low, and everybody is scared of them. There is hardly one man in a thousand who, had he been satisfied with a fair profit or reasonable profit in that cotton market, could not have gotten out. The biggest sufferers in that market were men who had millions of dollars of profits, who lost them through overextending themselves. If you will study it, you will see that decline in cotton futures was as natural as anything in the world ever was.

The CHAIRMAN. The decline in futures was as natural as anything in the world, but to what extent did the decline in futures carry with it the price of spots in your country? Are you paying as much for spot cotton now as you were when cotton futures were selling for 16.50 in New York?

Mr. CONE. I left home day before yesterday, and I sold that day to one of the biggest mills in my State 1,500 bales of good middling cotton at 15.75, and the highest that I paid for good middling cotton I do not think was as high as $16\frac{3}{8}$. Here was the effect of that break in futures. I individually turned in to my salesmen, and I said, "Boys, sell all the cotton you can." And why did I say to them "Sell all the cotton you can?" I sold it lots cheaper than I could buy it. I sold good cotton at $14\frac{5}{8}$ cents, and I have not bought that cotton yet, gentlemen, but I have a good profit in it and I have got to pay lots more for that cotton than I sold it at. Why did I sell it? Because I could buy hedges, futures, in New York, May and July futures, active cotton futures. November and December I do not want. I want something active; I want to get in that which everybody wants, you understand?

The CHAIRMAN. Yes.

Mr. CONE. I could buy futures against that cotton, and when the time comes, if cotton goes up, as I believe it will do, I will make a profit. In fact, to take an example, I bought futures at 13.58 and I bought futures at 13.63 and I bought futures at 13.73, and all sorts

of prices in there, and against it I sold cotton at 14$\frac{5}{8}$ and 14.75, and cotton that I am glad to go out and pay over 14 cents for when the time of delivery comes.

The CHAIRMAN. That suggests this question. This relates to your private business, and you need not answer it if you do not want to.

Mr. CONE. Yes.

The CHAIRMAN. Which do you regard as the most important of your operations from the standpoint of profit, the handling of the actual cotton, with either a profit on the bale or your commission, according to the way you handle it, or your margins from the sales of futures?

Mr. CONE. The handling of the actual cotton is the first essential consideration with me; but frequently it happens that I believe that the future market is out of line with spots. In other words, here is what happened to me one day. I was able one day, about two weeks ago, to do this. A mill wanted some cotton for March shipment. I asked them 15.25 cents landed at their point for 400 bales of March cotton, which was the market several weeks ago. I bought against that cotton 400 bales, if I recollect aright, of March futures at 13.90. I had an actual sure profit in that deal, if I chose to go up to New York and ship the cotton back to North Carolina, of about $160 on 400 bales of cotton. I am not going to take that cotton up in New York. Why? Because the future has gone up. There were too many merchants like myself who wanted that cotton, and the result is that it has gone up, and it has come back just as naturally as anything could; it is according to just as natural a law as there is. It has come back; the parity is reestablished, the parity which was jarred out of line has come back.

Mr. LEVER. What jarred your parity out of line?

Mr. CONE. The very thing that I mentioned a while ago; there is the greed. There is that man, and he has got no business in the market perhaps. That I do not know; I can not say. But, gentlemen, that is an ethical, moral question; it is not a question, I think, that the United States ought to have anything to do with.

The CHAIRMAN. I would like to ask whether you handle your business by way of commissions, or do you make actual purchases of cotton?

Mr. CONE. I handle it in both ways. I buy sometimes from the farmer, sometimes from the other dealers. I buy wherever I can buy cheapest. I also try to make commissions. Wherever I buy through another dealer I make him pay me brokerage. I sometimes sell through other dealers and give them the brokerage. It is the profit that I am figuring for.

The CHAIRMAN. When you buy cotton futures, how much do you pay by way of commission?

Mr. CONE. I formerly paid $15 on the 100 bales, but my business kept growing so that I found it to my interest to become a member of the various exchanges. I sometimes, as I said, hedge in Liverpool and sometimes in New Orleans and sometimes in New York, and by becoming a member of those exchanges the brokers to whom I throw my hedges in New York allow me one-half commission.

The CHAIRMAN. Will you make it general and tell us what the usual commission is?

Mr. CONE. In New York it is $15 and in New Orleans it is $15 on the hundred bales.

The CHAIRMAN. There are about 100,000,000 bales sold annually on the New York Cotton Exchange?

Mr. CONE. I could not say. I do not know; but there are gentlemen here who could tell you.

The CHAIRMAN. Will you let me ask you that question just now, Mr. Neville; about how many bales of cotton were sold on the New York Cotton Exchange last year?

Mr. NEVILLE. With all due deference to the statements made to this committee on that head, I consider them estimates, absolutely, and there is no way of getting at the number of bales traded in.

The CHAIRMAN. Well, I will not pursue that further now. Whatever the amount may be, the charges for the handling of this phantom cotton must be paid by somebody. Would it be fair to say that the charge is paid either by the producer or by the ultimate consumer of the cotton?

Mr. CONE. Well, sir, I wish to say this, that 100 bales of cotton amounts, in round money, to about $8,000, and the commission on that transaction is such a per cent that it figures out infinitesimally in the deal—that is, in the average deal; I would not say infinitesimally, either, but I would think that the average cotton man in the South under this hedge system figures to make 50 cents to $1 a bale on his cotton, and he is willing to take that; he will do it gladly, to be able to know exactly "where he is at."

The CHAIRMAN. I am not questioning the locus of the charges that are made in handling the actual cotton, but I was only figuring that if several times the total crop of cotton is sold every year on the exchange, and a charge is made for the transfer of every bale, it must in the aggregate amount to a good deal of money which somebody must pay, and I was wondering who paid it.

Mr. NEVILLE. There will be other witnesses following Mr. Cone, from whom, perhaps, you could draw that information in a more detailed way than you could get it from Mr. Cone, and perhaps more to your satisfaction.

The CHAIRMAN. Very well.

Mr. CONE. Personally, all I could say to that is that I believe in live and let live. I think everybody ought to have a chance to make some money.

The CHAIRMAN. Do any members of the committee wish to ask the witness any questions?

Mr. COCKS. Do you think that if dealings in futures were prohibited by law the exchange would go out of business?

Mr. CONE. If in this country alone they were, and nothing was done to prohibit foreign dealings, we would necessarily be compelled to deal in foreign countries. Of course, I think that any law that was passed to stop future dealings, as the system is one that is so beneficial to my mind both to the mills and the cotton dealers and the merchants, would have to be a most radical one.

The CHAIRMAN. Do you believe that if the future deals were prohibited it would be possible for the exchanges to exist?

Mr. CONE. I think that they would be just like that Galveston Exchange, a dead letter, sir. I think, sir, that if the exchanges ceased to exist, the people who had ample means to pay for information and get information, the shrewd merchants and shrewd mill men, would eventually control the situation, and I do not think that the farmers

would be one, two, three in the control of it. Lord knows, if the Brazilian Government could not play any big part in buying 10,000,000 bags of coffee, I do not see how the farmers could play much of a part in the final economical handling of a situation like that.

Mr. COCKS. Then I gather from your remarks that if futures were prohibited the exchanges would practically go out of business?

Mr. CONE. Yes, sir.

Mr. LEVER. Do you think that the Galveston Exchange would be a dead letter now if it were not for the New York and New Orleans exchanges?

Mr. CONE. I do not think under any situation as it now exists in this country that the Galveston Exchange ever had any chance to be anything in the shape of governing cotton or having any influence in governing the price of cotton. In the first place, when it comes to regarding fluctuations in cotton we first turn our eyes to Lancashire, to Manchester or Liverpool, England, which give the information as to what is going on in Lancashire. I do not know whether you gentlemen noticed a little thing that happened last week, which shows you one thing that influences the market. For personal effect some scoundrel reported or spread the rumor in New York that there was sold in Lancashire 30,000 bales of cotton, on top of an enormous day's business of 18,000 bales. In other words, one day last week there was reported 48,000 bales of actual cotton sold in Liverpool to Lancashire mills. The market shot up on that, for the reason that we thought that now we were going right into the 20-cent line. I myself bought a few bales on the strength of that. The next morning it was denied, and the market broke right down to where it was before; but it has since, through its own sheer strength, recovered.

Mr. LEVER. By whose buying was the market shot up in that way?

Mr. CONE. It may have been by people who wanted futures, it may have been by people who were short of cotton, or it might have been by some dealer who had gone open on his contracts. The Lord knows what it could have been from. There was one thing astonishing to me in that last break, and that was where all the millions of bales of cotton came from that were dumped on the market in New York in that panic. Where they came from is something that I can not get through my mind.

Mr. LEVER. I take it this information of this large sale of cotton in Lancashire and this immediate jump in the price of cotton took place in a very short time, and I was curious to know whether or not the information had reached the mills down in the country in South Carolina, and in Massachusetts, and whether the buying came from them or from the exchange.

Mr. CONE. Where that rumor originated I do not know; but I want to say this: That there is more honor to a minute in Wall street and in Beaver street than there is in the heart of the country.

Mr. LEVER. I guess they would be proud to hear you make that statement.

Mr. CONE. That is my opinion, and I can give testimony to prove it.

Mr. LEVER. My idea was this: To ascertain whether the sudden jump in the price of cotton, due to the information you had on the exchange, was from the buying of the people of the mills and men interested in spot cotton, or from buying of men interested in cotton

for speculative purposes. That is a straight question, and I would be glad to have you answer it.

Mr. CONE. Pardon me, I am down in North Carolina, and what you want here is facts, and facts in reply to that question I am unable to give.

Mr. LEVER. You are unable to give them?

Mr. CONE. Yes; but I do know this: That I bought, myself, a few hundred bales on the strength of that canard, and as soon as I found out it was false I sold that cotton.

Mr. LEVER. You were telegraphed to?

Mr. CONE. Yes, sir. But I want to say this: That that is no reflection by any means on the honor of the average member of those exchanges, because they are as high-toned a body of men as live in the United States.

Mr. LEVER. I do not doubt that, because I know some of these men in a personal way.

Let me ask you another question. You seemed to be solicitous about the small dealer or buyer, because under a system without future dealings he would not be able to hedge. Is it possible now for you to borrow money on your hedges from banks?

Mr. CONE. No, sir. The bank will lend me money on my cotton.

Mr. LEVER. On the actual cotton?

Mr. CONE. On the actual cotton; and it will lend me more money on that actual cotton than it would lend me if I were unable to hedge.

Mr. LEVER. Does the little buyer get that advantage?

Mr. CONE. Where he is known to be a man that is honest and of high moral character, in my section he gets it to whatever degree those considerations entitle him to. I know one man in my town who is worth less than $500 who was able to borrow money on cotton amounting to $8,000.

Mr. LEVER. What advantage do you get on your cotton from the fact that you can hedge?

Mr. CONE. I know that I am able to borrow within 10 per cent of its worth, and I believe that that banker would not lend me within more than 25 per cent of its worth if it was not for that, unless it might be through a consciousness that I am good for whatever I do. But even then I am sure he would want 20 per cent leeway if I were not able to hedge.

Mr. LEVER. Does the cotton buyer give to the banker any assurance of the fact that he is hedged? Does the banker ask that of him?

Mr. CONE. The banker is assured by me, I know, when I go to make trades, that I am hedged.

Mr. LEVER. That you are hedged?

Mr. CONE. Yes.

Mr. LEVER. You think, then, that the destruction of the exchange would militate very much against the small buyer because he could not borrow the same amount of money if he could not hedge?

Mr. CONE. Let me give you an illustration of what I think would happen. I buy cotton from a little concern in Alabama that Dun's or Bradstreet's does not show to be worth more than $50,000 or $75,000. That concern has been doing business, and it handles upward of 50,000 bales of cotton a year, and has been doing it for quite a period of years. Dun's and Bradstreet's do not show them to be worth more than $50,000 or $75,000, so that you may judge

that they handle it on a very minimum of profit, handling that much cotton. There is no day, I would venture to say, in my judgment, that any cotton farmer will bring cotton to that man but what he will buy it, even if he thinks the market is going all to pieces, at a reasonable price and on a very small margin. The other day I got a letter from that man. Ordinarily he has borrowed from his banks $250,000 on his cotton, and he was such a bull he took the pains to write me this letter. He said: "Now I have less than $20,000 borrowed, and that is on customers' cotton." It is not even a question of his hedging. I think it is the fact that that banker knows he has the opportunity to hedge that enables him to borrow that amount of money. In other words, with cotton at 15 cents a pound, do you think that banker would be a safe banker if he did not require a great margin when the average price of cotton for years has not been more than about 10 or 11 cents? If he would lend money on that cotton, do you not think he would be a poor banker if he would lend close up on it now? What would be the result if that banker did not know that this man has the opportunity to hedge, whether he hedges or not? I do not believe that really enters into the question at all, when you come right down to it, whether he really does hedge or not.

Mr. LEVER. I thought that, too.

Mr. CONE. But the very fact that that man could not hedge would make the banker demand so much margin that that man would have to pay less for his cotton. He would not pay the farmer, I do not believe, with cotton at 15 cents, over 13½ cents for his cotton. I know I would not do it.

Mr. LEVER. I may be wrong about this, because I admit considerable ignorance about the operations of the exchange. A hedge represents only so much margin put up with the banker or with somebody on the exchange?

Mr. NEVILLE. I am afraid you do not understand the meaning of a hedge. A hedge is a contract that a cotton buyer sells to protect himself against the fluctuation in the market; that is a selling hedge. A buying hedge is one that a merchant buys when he sells the cotton, 100 bales of cotton to be delivered at some future time.

Mr. LEVER. I understand that. This is the question I want to ask: If I buy and hedge 100 bales of cotton, I put up against that my check or note or money for $250 or $500, or whatever it may be, with some broker, with some gentlemen on the exchange, so that the hedge as a matter of fact does not represent actual cotton, but it represents so much money out of the pockets of some one.

Mr. NEVILLE. I beg to differ with you on that. The hedge that you buy or sell there represents 100 bales of cotton.

Mr. LEVER. One hundred bales of cotton?

Mr. NEVILLE. Yes; and the money you put up there is in the shape of a margin.

Mr. LEVER. It represents actual cotton?

Mr. NEVILLE. Actual cotton, and the money you put up is the margin that the broker exacts.

Mr. LEVER. Who has the cotton?

Mr. NEVILLE. Who has the cotton?

Mr. LEVER. Yes.

Mr. NEVILLE. If you sell it, you are supposed to have it. You sign a notice of execution in which you agree to deliver that cotton,

Mr. LEVER. That is a supposition contrary to the fact usually, is it not?

Mr. NEVILLE. No, sir; it is not. But we will develop the facts on those lines. Pardon me, Mr. Cone, I saw you were a little bit mixed on that.

Mr. CONE. This is a branch of the business that these other gentlemen can give you better than I can. You are getting me on the cotton exchange line of it now and Mr. Neville can explain better than I can on that. But I will say this, that I do sell cotton futures in New York at times with the intention of delivering and do make the actual deliveries. I sell the hedges, and if the thing does not work so I can buy in those hedges profitably, I do at times make the actual delivery of the cotton.

Mr. LEVER. But those times are very rare?

Mr. CONE. I wish to say this: The man that I sell that hedge to has an actual contract from me and unless I transfer that contract to some one else he can hold me. For instance, I bought the other day 1,500 bales of cotton when it was down for a mill in North Carolina. They did intend to demand the cotton on that contract, but the price of futures went up and they had some thousands of dollars of profit, and they could not resist the temptation to take it. But whoever sold that 1,500 bales of cotton to me that day—that person or some one who would have taken their place—would have had to deliver me 1,500 bales of cotton.

The CHAIRMAN. But they did not have the 1,500 bales at the time you made the contract?

Mr. CONE. That I do not know. It may be that the man who sold that cotton may have had 100,000 bales of cotton. I do not know.

Mr. LEVER. Just in line with the chairman's question let me ask you this: As we understand it now, according to the statement of Mr. Neville, a hedge represents actual cotton?

Mr. CONE. Yes.

Mr. LEVER. Now, I notice here on January 28, 1910, this year, the sales on the New York Cotton Exchange amounted to 450,000 bales of cotton.

Mr. NEVILLE. Might I ask what statement you have there?

Mr. LEVER. I am reading from the New York Commercial of Friday, January 28, 1910.

Mr. NEVILLE. The New York Commercial has nothing to do with the New York Cotton Exchange. In fact, there is not a representative of that paper allowed on the floor of the New York Cotton Exchange.

Mr. LEVER. Is it not a reputable paper?

Mr. NEVILLE. I do not know. You can judge what I think of the paper from what I tell you.

Mr. LEVER. All right.

Mr. NEVILLE. As to what newspapers are, I will leave you to infer from what they say about you gentlemen and the speeches you make or the opinions you express.

Mr. LEVER. I should like to ask you whether or not you deny the fact stated here that on this day sales amounted in New York on the New York Cotton Exchange to 450,000 bales?

Mr. NEVILLE. I neither affirm nor deny it, but I tell you that that paper has nothing to do with the New York Cotton Exchange, and

none of its staff is allowed to visit the floor of the exchange. That is all I can say.

Mr. LEVER. Do you know whether or not 450,000 bales passed on that day?

Mr. NEVILLE. I do not. Neither did this man.

Mr. LEVER. You do not know and neither does this man?

Mr. NEVILLE. No, sir.

Mr. LEVER. It is shown, however, that a large amount of sales did pass there?

Mr. CONE. Pardon me, if it is information as to what occurred on the floor of the cotton exchange you desire, I live in North Carolina, and I rarely go to New York.

Mr. LEVER. You are a member of that cotton exchange?

Mr. CONE. Yes; but I use it in just the way that I have told you gentlemen. It is information I think you want. I think you are after facts; it is knowledge that you want?

Mr. LEVER. Yes.

Mr. CONE. And that knowledge you can gather far more satisfactorily from other gentlemen here than you can from me.

Mr. COCKS. You said you could not see where all this cotton came from that was dumped on the market after the slump?

Mr. CONE. Yes.

Mr. COCKS. That was unlimited, was it not, naturally?

Mr. CONE. It could not have been unlimited, because if it had been unlimited there is no telling how low it would have gotten, but it was dumped in enormous quantities.

Mr. COCKS. It was dependent on the desire of the individual to sell?

Mr. CONE. Evidently so.

Mr. BEALL. Mr. Cone, in cotton transactions, from the time that the cotton is gathered until it is made into cloth, there is a certain amount of risk due to fluctuations in the market and other causes?

Mr. CONE. Yes.

Mr. BEALL. I understand that the cotton dealer, the cotton merchant like yourself, hedges to eliminate that risk so far as he is concerned?

Mr. CONE. When he sells forward cotton; yes.

Mr. BEALL. The mill man when he buys cotton hedges to eliminate the risk so far as he is concerned?

Mr. CONE. To quite a degree, sir.

Mr. BEALL. Now, who finally assumes that risk? It is shifted from the dealer who buys the cotton, it is shifted from the mill man who buys the cotton; upon whom does it finally fall?

Mr. CONE. Pardon me; as I said awhile ago, there is in existence right now in the world some millions of bales of cotton; I do not know exactly how much, but statistics will show probably six or seven million bales, or maybe more. But the mill man hedges against that cotton to a very great degree, particularly the cotton that is held by the cotton merchants, particularly as to the cotton that is held by the mill against which it has no orders on hand, and in such cases he puts out his hedges. When he sells his cloth he buys in those hedges. There are at times millions of bales on which hedges are given.

As against that, take myself. I represent the other side of the question. On the other hand I have cotton sold for March, April, May, June, and July shipment.

Mr. BEALL. Against which you have hedged?

Mr. CONE. Against which I have hedged some of those futures which those men have sold. If the market goes down, the mill man who sold his hedges will have to reduce the price of his cloth, but he is protected in the price of his future. If the market goes down, I will lose on my future, but against that I have got my spot cotton. I can reverse the illustration and put it just the other way.

Mr. BEALL. In that event you will be protected through your hedging?

Mr. CONE. Yes.

Mr. BEALL. And the mill man will be protected through his hedging?

Mr. CONE. Yes.

Mr. BEALL. Is it not a fact that everybody that has to deal with cotton is in position to protect himself against these fluctuations except the man who produces the cotton on one side or the consumer of the cotton product on the other?

Mr. CONE. No, sir.

Mr. BEALL. Have they any way of protecting themselves?

Mr. CONE. Yes.

Mr. BEALL. How?

Mr. CONE. In the first place, I buy every year in the spring of the year—and in fact I will buy right now from these gentlemen, even if I thought the market would go to 10 cents to-morrow—the cotton; that is, if they will give me a legal contract and show that they are able to stand up to their contract I would be glad to buy their cotton from them to-day, even though I believed—which I do not believe—that the market will go down. As I have on my books short contracts for spot cotton, just so I have on my books long contracts for spot cotton. At times I am able to pick up, down South, for forward shipment, some of this cotton. In fact, I bought just the other day at Milledgeville some middling cotton at 15⅝ cents. I balance that in my day's trading against my possession, and if my books do not make a balance with the spot cotton, I even it up with futures. I bought that cotton from that man for March shipment. This buyer in Milledgeville, Ga., wired me that he had this cotton to sell. I wired him that I could use that cotton for shipment March 1. He wired back that he would accept my offer. That goes on the other side. Where I have got cotton sold I have got cotton bought.

Mr. BEALL. As I understand you, you can protect yourself; but who finally accepts this risk? In the transaction you make you protect yourself by hedging, but that does not lessen the risk that somebody has to assume. Upon whom does that risk finally fall?

Mr. CONE. The risk of what?

Mr. BEALL. The risk of this fluctuation in the market, the very risk against which you guard when you hedge?

Mr. CONE. Pardon me; in the first place I do not believe farmers would raise cotton unless they could make money by raising it.

Mr. BEALL. Were you in the cotton business in 1893, 1894, 1895, and 1896? Did they make money at that time?

Mr. CONE. I was not in the cotton business at that time. Last spring I would not deal with the farmers themselves, but with merchants of standing. I have particular reasons, which nobody has questioned me about, but which I am itching to be questioned about,

why I did not deal with the farmers. I dealt with merchants of standing and I bought a world of cotton last spring at 9.50 cents. I told those gentlemen "I believe cotton is going to 15 cents;" but the more I tried to tell them that I thought cotton was going up, the more they thought I had an ulterior motive in view—except a few who knew me well. The first 15,000 bales that I bought cost me less than 10⅛ cents, and it looks to me like they would not have sold me that cotton unless they thought they would make money out of it.

Mr. BEALL. You think that answers the question as to where the risk finally falls?

Mr. CONE. Well, as far as the risk is concerned, as I understand it, the exchange eliminates risks as much as possible.

Mr. BEALL. As to whom?

Mr. CONE. As applies to all men who will avail themselves of the benefit of that exchange. These gentlemen here can avail themselves just as I do.

Mr. BEALL. Then the farmer in order to eliminate the risk would have to go onto the exchange and buy or sell future contracts as you do, to protect himself?

Mr. CONE. Not necessarily. He could come to me or go to the mill. If he will pay me the brokerage of 50 cents a bale I will sell his cotton for him to some mill, and I will sell his cotton to-day at 15.50 to 16 cents and let him have the mill contract. All I want is 50 cents a bale brokerage, and I do it in some instances for 25 cents a bale. He can eliminate his risk to-day if he wants to.

Mr. HAUGEN. Is it not a fact that the risk falls on the speculator?

Mr. CONE. There is doubtless some money lost by speculators, but I think speculators deserve to lose.

Mr. HAUGEN. That is not an answer to the question. Will you try to give an answer to the question asked by Mr. Beall, as to where the risk falls?

Mr. CONE. If it is the proportion you want to know, that falls on speculators. I do not think any living man can answer it or come anywhere near answering it. Humanity is humanity, and whether they invest in real estate or in cotton futures, or grain futures, or in the actual grain or cotton itself, either the one way or the other, they are going to take the chance for profit.

The CHAIRMAN. It is the lambs that pay most of it, is it not?

Mr. CONE. Of course, any man who loses, whether he be a smart man or not, is a lamb. The smartest man that I ever knew in my life went broke on futures; but he went to work and made another fortune, although he did not make it in futures, and he afterwards made a pile of money in futures.

Mr. BEALL. How long would the cotton exchanges in New York and New Orleans last if they only bought and sold among themselves?

Mr. CONE. Well, sir, if we gentlemen locked ourselves in this room here and confined ourselves to trading among one another, I think we would soon lose the fun of it.

Mr. BEALL. I rather think so, too. You are largely dependent upon the outside supply of lambs in order for the exchanges to prosper, are you not?

Mr. CONE. Well, sir, that does not necessarily follow.

Mr. BEALL. Does it not take three kinds of people to make a prosperous exchange—bulls and bears and lambs?

Mr. CONE. As I showed you a while ago, this mill man can make money on his cloth, and I can make money on the cotton. The mill man can have sold and I can have bought that cotton, and we both make money, and yet at the same time he would have paid me the balance for his over profit by having hedged. I could show you transactions on the cotton exchange where we all made money; and it is not necessary to have lambs, and Mr. Neville or any of these cotton exchange men can prove that to you. There are propositions where they can all make money.

Mr. BEALL. I understood you to say that Mr. Patten could corner the spot cotton market. Has anybody ever cornered the spot market?

Mr. CONE. I believe there have been successful corners carried, but only once or twice. I think that Brown and Hayne some few years ago—I have forgotten the exact year—successfully carried cotton and maintained it up about 13.75, or somewhere up there, but they never could have done it if the supply and demand situation had not been with them.

Mr. BEALL. What happened to Brown?

Mr. CONE. I do not know, sir. What happened to him?

Mr. BEALL. Yes.

Mr. CONE. I do not know what you mean. Did he go broke afterwards?

Mr. BEALL. Yes, he did.

Mr. CONE. If he did, I do not know it.

Mr. BEALL. I thought somebody of that name once attempted to raise the price of the cotton market and met with sudden disaster.

Mr. CONE. I will tell you, some of the smartest men I have ever known have tried to corner the cotton market and went broke at it. As smart a man as far as classical intelligence goes, as ever lived, tried it and went broke at it. I do not think any man ever was Theodore Price's superior, and I have heard of him going broke on more than one occasion.

Mr. LEVER. You have spoken during your remarks of the law of supply and demand?

Mr. CONE. Yes.

Mr. LEVER. Do you think that the law of supply and demand had anything to do with the transactions on the New York Cotton Exchange during the month of January?

Mr. CONE. Yes; if it had not been for the law of supply and demand there is no telling how low cotton would have gotten. For instance, take the mills that I sell cotton to. Knowing that that cotton was too cheap, they bought cotton from me at a price that I could afford to sell them that cotton at because we dealt with the law of supply and demand. In other words, we felt, we knew, we could get cotton cheaper right there than anywhere in the world. I could not buy from these farmers for 15 cents, but they wanted cotton for March, April, May, and June shipment. I sold them cotton at 14¾ cents that I could not buy at that time, and I never have been able to buy it at that price.

Mr. LEVER. So that you have not got the cotton now?

Mr. CONE. I have not got the cotton now, except in such instances as I mentioned, where I bought that cotton in Milledgeville; but I bought that cotton on the New York market because that New York contract meant a certain thing to me and I knew that that meant

actual cotton, and I sold actual cotton; and that is what that contract means, when you look at it face to face, in all its trueness.

Mr. LEVER. I understood you to say that you did not have the cotton; and if you were called upon this moment to deliver that cotton, could you do it?

Mr. CONE. My contract does not specify for shipment in the month of February; but if that mill were to ask me for that cotton to-day I would be delighted to give it to them. And why? Because I can buy the cotton cheaper proportionately to-day, probably, than I can later on. Anyway, one thing I do know, that that cotton I sold at 14⅝ cents I can pay 15.75 cents for to-day—in fact, I can pay 16 cents for it to-day and make money on it.

Mr. LEVER. But in the meantime you have got to go out and scrape up that cotton and get it somewhere to be delivered at a time in the future?

Mr. CONE. Yes; and that puts me at the mercy of these gentlemen, and I am glad to be at their mercy.

Mr. LEVER. And the only guaranty you have with the man with whom you have your contract is your own financial standing?

Mr. CONE. Yes; I suppose so. I do not know the reverse. I do know that they are glad to have my contracts, and they know that when the time comes, if I have to pay 40 cents a pound for that cotton, thay will get the cotton.

Mr. LEVER. Yes; they risk you because you are a man of financial standing.

Mr. CONE. I know some men of financial standing in my community that could not get the contracts I could get, that are worth, maybe, more money than I am.

Mr. LEVER. That is due, of course, to your good moral standing, then. Now, the Government's estimate of the cotton crop was made along about the 1st of December and it gave us a crop of 10,000,000 bales. Upon that estimate the cotton went up in January to 16.50, or approximately that. During the month of January there was a tremendous drop in cotton of $15 a bale. Your proposition is that this law of supply and demand governs the situation. You had, all through the month of January, one side of it. You knew the supply. The only question involved was the demand. Yet cotton broke $15 a bale.

Mr. CONE. I beg your pardon, cotton did not break $15 a bale; futures broke.

Mr. LEVER. Were these future transactions legitimate or illegitimate transactions?

Mr. CONE. I could not say that, but I do know that it paved the way for future transactions that are of unquestioned benefit for cotton. It enabled me to sell the mills cotton and to sell futures against it which, if the market had not righted itself, I would have gone to New York and demanded the cotton on my contract.

Mr. LEVER. We have understood that your hedging is in actual cotton.

Mr. CONE. Yes.

Mr. LEVER. Do you mean to tell the committee now that all of the enormous fluctuation in the month of January of this year, when cotton was fluctuating from 100 to 150 points a day, was due to hedging?

Mr. CONE. No, sir; there is attached to this business speculation, as we all know, and you will find that there is speculation in almost all things that pertain to business.

Mr. LEVER. Very well.

Mr. CONE. Whether it be real estate or whatever it is.

Mr. LEVER. I will not pursue that line.

Mr. BRADFORD. Will the gentleman please explain briefly the difference between a contract that represents actual cotton and one that does not?

Mr. CONE. I do not know of a contract that does not represent actual cotton that is dealt in on any of the exchanges.

Mr. BRADFORD. I thought you said that January speculation did not represent actual cotton.

Mr. CONE. The way I should have said it, probably, is that there are speculators who never have any idea of buying or selling a bale of the real thing. But as I say, that is a matter that applies to almost anything. I have known men to buy real estate for a value far beyond anything they would be able to pay for it, and sell that real estate and make a good profit on it.

Mr. BRADFORD. Is it true or not that those contracts which you say represent the actual cotton and those which you say are purely speculative were all made on the same board and during the same day?

Mr. CONE. Pardon me, if I said there was a contract that does not represent actual cotton, I misstated what I was attempting to say. Every contract that is made represents actual cotton; but, to make myself clear, there are speculators.

Mr. LEVER. Do they have a special contract?

Mr. CONE. No, sir; they have the same identical contract that I have.

Mr. LEVER. What kind of a contract do those speculators enter into that does not call for actual delivery?

Mr. CONE. They enter into the same contract, but here is what they will do. The speculator will buy a contract; say he buys March or May cotton at 15 cents a pound, and the price two weeks from now is 15.50, showing him a profit of $250 on his 100 bales. He may sell it. Suppose, on the other hand, it goes down to the last of February, notice day. You have these cotton-exchange men here who can tell you better than I can how this thing is done. When notice day comes around, if that man does not want to take that cotton and notice is tendered, his broker will immediately—but Mr. Neville can explain that. Gentlemen, ask these cotton-exchange men. [Great laughter.] I am really answering questions that these cotton-exchange men ought to answer.

Mr. NEVILLE. You are doing all right.

Mr. CONE. I know how it is, but I am trying to explain that which can be so much better explained by somebody else.

Mr. HEFLIN. In line with the question asked by Mr. Lever about the transaction on the exchange in cotton, I believe you said this morning that all these transactions were in cotton, that cotton was to be delivered?

Mr. CONE. All of which transactions?

Mr. HEFLIN. All contracts on the New York Cotton Exchange.

Mr. CONE. They all represent cotton; yes, sir.

Mr. HEFLIN. The only bill that was ever reported out of Congress, I believe, was the Hatch bill, and the report on that bill said that what the great body of producers of the United States now complain of is that this principle of delivering cotton is daily, hourly, and almost universally violated, pretending to enforce the delivery of the commodity sold, they have invented ways and means and methods to evade the plain provisions of their own laws and their own rules.

Mr. NEVILLE. Mr. Cone is not acquainted with that business. You could get that information from him in a round about way, but the gentleman who will follow will give it to you much better.

Mr. HEFLIN. Very well.

Mr. LEVER. We understood this morning that there had been an attempt to establish a future market exchange at Galveston which had failed as a future market exchange, but that there does exist there a kind of spot exchange. I want your judgment as to this question. Do you believe if we abolished future dealings in New York and in New Orleans there would not grow up throughout the cotton belt, at Galveston, Charleston, S. C., Wilmington, and Birmingham, and throughout the entire cotton belt, various spot-cotton exchanges which would give to the cotton trade all of the functions now given to it by the present system, without the evil of the present system?

Mr. CONE. Personally I do not think that those exchanges would ever amount to much. I believe if the exchanges were put out of business, the spot-cotton business would fall into the hands of such men as George H. McFadden & Bro., whose business is estimated now to be upward of 2,000,000 bales of cotton a year. It would fall into the hands of those men, and there are a number of other such dealers. There are some merchants that now handle upward of 500,000 bales of cotton, people that are able to gather information and to handle their business in large volume, systematically and most economically, making their business so large that the fixed charges would be lessened and at the same time making their business so large that they could kind of keep control of the situation, as the big mill corporations, of which there are some very large ones, and the big spot dealers, do. I believe that they would really control the situation.

Mr. LEVER. And that these exchanges would not spring up?

Mr. CONE. I believe that in minor degree they would be there, but they would not amount to very much.

Mr. LEVER. Very well; thank you.

Mr. HUGHES, of Georgia. I wish to correct what seems to be an erroneous impression made upon the mind of Mr. Cone, Mr. Chairman, when you made the statement that you had received 200 letters on this subject in one day. Mr. Cone expressed his surprise at the indifference of the producer on this great question. I wish to say to Mr. Cone that I have never seen the producers of this country more interested in any subject ever presented to Congress than upon this important question, and if the Members of Congress were to answer all the letters that have been received on this question, they would have to double their office force and work fifteen hours a day.

The CHAIRMAN. Are there any further questions?

Mr. BURLESON. No questions from here.

Mr. CONE. In reply to that I can refer you to what happened to the people in the time of the house of Pugges. I want to say that I

would not have hesitated to answer the question of Mr. Lever as applying to the cotton exchanges, but what I would have said will be said so much better by others, and you can get the information so much better from other gentlemen here who are thoroughly conversant with the subject.

The CHAIRMAN. I am quite sure that the committee understands that you had no wish to avoid or refuse to answer any question.

Mr. LEVER. We understood that.

(At 4.30 o'clock p. m. the committee adjourned until to-morrow, Friday, February 11, 1910, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Friday, February 11, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott in the chair.

Mr. NEVILLE. Mr. Chairman, before you proceed with to-day's hearing I wish to correct in the record the remark I made in reply to Mr. Lever yesterday regarding the representative of the Commercial. After we left here yesterday afternoon I got to talking with my associates on the subject, and they stated that while I was away last summer he had made the correction that the supervisory committee asked for, and the paper was permitted to have a representative on the floor. I was not aware of that at the time I made my remark to Mr. Lever.

The CHAIRMAN. I am informed that Mr. Latham, of Greensboro, desires to be heard this morning. We are ready to hear Mr. Latham.

TESTIMONY OF MR. J. E. LATHAM, OF GREENSBORO, N. C.

(Mr. Latham was duly sworn by the chairman.)

The CHAIRMAN. Give your full name and your business connections to the reporter.

Mr. LATHAM. J. E. Latham, Greensboro, N. C. I am a cotton merchant, a cotton manufacturer, and a cotton farmer.

The CHAIRMAN. May I inquire, Mr. Latham, whether you would prefer to make your statement without interruption, and then have the committee ask questions afterwards?

Mr. LATHAM. There is nothing that I wish to address the committee upon; but I shall be very glad, indeed, to answer any questions that anyone may wish to ask upon this subject, and give you such information as I may have. I would therefore prefer to have asked such questions as gentlemen may desire to put.

The CHAIRMAN. Have you any statement that you would like to volunteer in the beginning?

Mr. LATHAM. No, sir; I have not. I have not prepared anything on that line.

The CHAIRMAN. I believe you stated that you are a cotton broker, a manufacturer, and a grower?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. Which one of those interests is the larger?

Mr. LATHAM. That of a cotton merchant.

The CHAIRMAN. Do you handle cotton on commission for the m part, or do you purchase outright?

Mr. LATHAM. I purchase outright, principally. I do a very sm business in a commission way. That is usually done by agreemen the time. I do not publish myself as a commission merchant. I a dealer in cotton.

The CHAIRMAN. Do you buy from the farmer direct?

Mr. LATHAM. That is very rarely done where I am located n because I am not located in a section of country that produces cot of any amount. I believe my county only produces about four five hundred bales; and that is produced on the edge of the coun right among some mills, and the cotton is usually sold down there

The CHAIRMAN. Then you buy from the smaller merchants in t smaller towns?

Mr. LATHAM. I buy from the merchants all over the South, and every State in the South.

The CHAIRMAN. What is your practice as regards hedging?

Mr. LATHAM. I find that the hedging of purchases or sales is a ve useful part of the business at times and frequently enters into it.

The CHAIRMAN. To what extent with regard to your purchases

Mr. LATHAM. Do you mean as compared to the entire volume?

The CHAIRMAN. Yes.

Mr. LATHAM. That would be a very difficult question to answ offhand; but I should say that in the case of at least 75 per cent all the cotton that I handle I hedge a future against it on one side the other.

The CHAIRMAN. On what part of this 75 per cent would you s that a hedge was of advantage to you, and on what part does it cau you a loss?

Mr. LATHAM. That is a part of the bookkeeping of the busin that I have never known of any dealer doing, and I have certain never done it, because the business goes into the common mill. Th is, I am either long or short, and I usually make my hedges to pr vent being long or short; and when I close out 100 bales of cotton 500 bales of cotton or 1,000 bales of cotton it may not have a reference to that particular hedge, and it may be melted at the sa time into a relative transaction.

The CHAIRMAN. The reason I ask that question is because I have great many letters from millers who say that while they formerly d so, they have now abandoned the practice of hedging in the gra market, because they found that on account of the manipulation the market they lost more frequently than they gained. I wonder whether the cotton merchants had had a similar experience, o whether their experience was the reverse of that.

Mr. LATHAM. I will venture the opinion, sir, that in the case of th cotton merchant that systematically hedges his purchases and sale and is sufficiently acquainted with the merits of the different hedgin markets of the world (which are New York, New Orleans, and Liver pool), the hedging market ought to be of advantage to him.

The CHAIRMAN. May I inquire if you deal on the exchanges in an other way than for the purpose of hedging?

Mr. LATHAM. Do you mean in a speculative way?

The CHAIRMAN. Yes.

Mr. LATHAM. Yes; I have speculated in cotton.

he CHAIRMAN. In that practice do you execute a contract which igates you to either receive or deliver cotton?

r. LATHAM. Yes, sir.

he CHAIRMAN. The contract is precisely the same as you make in ordinary hedging operation, is it?

Mr. LATHAM. Yes, sir; the same contract.

The CHAIRMAN. Do you practice hedging as a manufacturer?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. Can you give any reason, based on your observa-n or business experience, why the cotton trade should have a ure contract, that does not also apply to the hay trade or the wool de or the iron trade?

Mr. LATHAM. I think I might suggest some reason for that. In the st place, we make here in America practically the cotton product of e world. We make a large part of it, at any rate. We make such large proportion of it that 65 or 70 per cent of all we produce here the United States is sent out of the country; it is not consumed re in the United States. It goes out; and the foreign countries ve cotton exchanges that deal in futures. That seems to be one ason, at least, why we should have cotton exchanges. But another ason is this: I remember that you asked the same question in rela-on to hay of one of the witnesses you had here before you yesterday. y does not change its nature in any respect, but when it is sent up the market it goes to the horse or to the bull yearling, as the case ay be. But cotton does not. A manufacturer buys 100 bales of otton or 1,000 bales of cotton or 10,000 bales of cotton, according to e size of his plant, and on account of its being seasonable goods it necessary for him to manufacture that cotton in the spring of the ear to sell next winter; and then, again, he manufactures in the inter time to sell the following summer. The seasons reverse them-lves. Another reason is that there are so many different kinds of otton. Cotton is cotton to the ordinary mind; but there are great ifferences between the various grades of cotton to people that are nformed. The gentlemen here from Texas will particularly bear me ut in that, because they know the difference between the length of e fibers and the strength of the fibers and things of that kind, more than the ordinary man does.

The CHAIRMAN. And yet, when the cotton is purchased by the mill it is always bought on sample, is it not?

Mr. LATHAM. No, sir; it is not always bought on sample. In fact, I do not suppose 5 per cent of the cotton that the mills buy is bought on sample.

The CHAIRMAN. The mills buy without knowing what they are going to get, do they?

Mr. LATHAM. No, sir; they do not. They buy on description, and they buy from good, responsible dealers usually.

Mr. BURLESON. They do not have the sample, but they indicate the grade.

Mr. LATHAM. That is buying on description.

The CHAIRMAN. The description is equivalent to the sample?

Mr. LATHAM. Yes, sir. To further explain my idea, suppose that mill is using full inch and an eighth hard staple cotton. It would e runious to the product of that mill to place in it the ordinary pland cotton that we get from Georgia or from Carolina, where I

live. It would be equally ruinous to put in the inch and three-eighths cotton or the inch and five-sixteenths cotton that would come from the Mississippi Delta or from some of the new sections in Arkansas and Texas. The mill to-day is getting an opportunity to sell its product of goods six months in advance. I do not know what other manufacturers and dealers will tell you, but there are times when I can not buy cotton from any of my correspondents, and I probably have a hundred scattered in every cotton State in the Union. There are times when I inquire for 500 bales of inch and an eighth good middling cotton, and do not receive a single quotation. If that business is offered to the mill man on a parity which ought to be good, based upon the known quotations of other grades of cotton, one of the uses of trading in futures at that particular point would be for him to make a hedge against the ordinary contract of cotton, so that he might be able to convert his contract into the extraordinary grade of cotton as soon as an opportunity presented itself.

The CHAIRMAN. And yet, the fact that he is able to buy a future would not make it possible for him to get cotton when the cotton was not to be had?

Mr. LATHAM. The swing of cotton, the different grades and the different staples, is not exactly fixed, but it is nearly so; and if one goes up, the other is apt to go up, too.

The CHAIRMAN. Why would not that argument apply to the manufacture of wool? Is not that pretty closely allied to the manufacture of cotton?

Mr. LATHAM. I do not know, sir; I am not prepared to say much about that, except that I do know this: Cotton can be substituted for wool, but I do not believe wool will ever be substituted for cotton.

The CHAIRMAN. That is probably because wool is more valuable than cotton, and the more valuable article is never substituted for the less valuable one.

Mr. LATHAM. Yes, sir; I think they do have some wool exchanges. Whether or not they trade in futures on wool, I am not able to say. But in reading the Journal of Commerce, or some of the papers of the country, it seems to me I have seen the Boston Wool Exchange mentioned.

The CHAIRMAN. I think there are no futures in wool.

Mr. LATHAM. No futures in wool?

The CHAIRMAN. At least that is the information I have.

Mr. LATHAM. I am not prepared to say whether there are or not.

The CHAIRMAN. As a cotton merchant, I should like to inquire whether you find pretty free competition?

Mr. LATHAM. As a cotton merchant?

The CHAIRMAN. Yes.

Mr. LATHAM. Yes, sir; it is very warm.

The CHAIRMAN. You do not know of any arrangement by which the big cotton dealers divide up the cotton territory?

Mr. LATHAM. I do not, sir.

The CHAIRMAN. Or eliminate competition in any other way?

Mr. LATHAM. No, sir; I do not.

Mr. HAWLEY. If such a combination existed, would you know it?

Mr. LATHAM. I can not answer as to that, sir. It might exist without my knowledge, but it does not exist to my knowledge.

The CHAIRMAN. Speaking for yourself, you will say that you do not have any understanding with any other cotton merchant whereby you agree to pay the same price?

Mr. LATHAM. I do, sir.

The CHAIRMAN. On any given day?

Mr. LATHAM. I do; I have no combination with anybody with regard to handling cotton.

Mr. LEVER. Right on that point: As a matter of fact, all cotton dealers are limited by quotations from New York, are they not? You buy within certain limitations during the day?

Mr. LATHAM. I would not say that, precisely, for it certainly would not fit my case. There are times when I pay relatively a great deal more for cotton than it is worth in New York; and sometimes I pay relatively less for cotton than it is worth in New York.

Mr. LEVER. Is that the usual thing?

Mr. LATHAM. That is not the usual thing; that is the unusual thing.

Mr. LEVER. As a matter of fact, you are usually guided by the quotations you receive from New York from time to time during the day as to the price which you may give for your cotton during the day?

Mr. LATHAM. I am guided by the quotations from Liverpool and from New York, and by the mill orders that I have on my desk—the inquiries that I have. Those three, combined, fix the market.

Mr. LEVER. Are those quotations quotations of spots, or practically of spots?

Mr. LATHAM. That guide my buying?

Mr. LEVER. Yes.

Mr. LATHAM. Yes, sir.

Mr. LEVER. They are quotations of spots?

Mr. LATHAM. They are quotations of spots; yes, sir.

Mr. LEVER. Those that you receive from New York are quotations of spots?

Mr. LATHAM. No, sir. Well, I do sell spot cotton to New York merchants occasionally, and I also buy some.

Mr. BURLESON. I did not catch your answer as to whether or not your buying is based on spots.

Mr. LATHAM. My answer, sir, is that the prices at which I buy or sell are based upon the quotations of both spots and futures—futures from Liverpool and New York particularly and the spot-cotton prices that come into my office from spinners throughout the world.

Mr. LEVER. Do Liverpool and New York furnish you quotations on spots?

Mr. LATHAM. I think they do daily; yes, sir.

Mr. LEVER. You "think they do daily?"

Mr. LATHAM. Yes, sir.

Mr. LEVER. It does not make enough impression on your mind to make you know that?

Mr. LATHAM. Sir?

Mr. LEVER. The quotations that you receive do not make enough impression on your mind to make you know that you receive them daily?

Mr. LATHAM. Yes, sir; I do know it.

Mr. LEVER. You do know it?

Mr. LATHAM. I do, sir.

Mr. LEVER. Are you governed in the prices you pay to the producer of the cotton by the spot quotations or the future quotations you receive?

Mr. LATHAM. By both.

Mr. LEVER. By both?

Mr. LATHAM. Yes, sir.

Mr. LEVER. To which do you give the larger influence?

Mr. LATHAM. As my business is very largely in spot cotton, I am very frequently a buyer of cotton when it would not be delivered upon the quotations sent out by the New York or Liverpool cotton exchanges. I very frequently sell cotton and ship it to New York and Liverpool when that is the highest market in the world. I have done so this year. I have delivered several thousand bales of cotton to New York that went on the exchange there simply because that was the highest market in the world.

Mr. LEVER. As a matter of fact, Mr. Latham, is it not the custom of the cotton buyer in the South to receive his quotations from New York "20 points on" or "20 points off," and act within those quotations?

Mr. LATHAM. That may be so, sir. There are so many different schemes for handling the cotton that it would be impossible in a few hours or within a few days to go through all of them.

Mr. LEVER. Is it not so, as a matter of fact?

Mr. LATHAM. It is not so so far as I am concerned.

Mr. LEVER. It is not so so far as you are concerned?

Mr. LATHAM. No, sir.

Mr. BURLESON. Let me ask you a question right there. Mr. Latham, are or are not the majority of authorizations you receive for the purchase of cotton based upon so many points off or so many points on futures?

Mr. LATHAM. The authorizations that I receive?

Mr. BURLESON. I am speaking of the authorizations that you yourself receive to buy cotton.

Mr. MENDELBAUM. He means——

Mr. BURLESON. Mr. Latham needs no assistance. He is under oath, and I ask him this direct question: Do not the majority of authorizations you receive to buy cotton come to you to buy so many points on or so many points off futures—New York futures, too?

Mr. LATHAM. I will answer that question "No;" but I will state, further, that in sending out my own orders I do very frequently base them on that.

Mr. BURLESON. That is all.

Mr. SIMS. Let me ask you a question there. What time in the day is the spot quotation posted in New York?

Mr. LATHAM. I think it is at 2 o'clock.

Mr. SIMS. Is it not a fact that the largest amount of the cotton business is done everywhere before that quotation is even posted throughout?

Mr. LATHAM. It is not so where I operate.

Mr. SIMS. You wait until 2 o'clock to buy in your place, do you?

Mr. LATHAM. Our buying is very largely done from dealers, and they buy and sell after the close of the market.

Mr. SIMS. Do the dealers wait until 2 o'clock?

Mr. LATHAM. Well, we buy cotton all down in the South.

Mr. SIMS. What effect would a spot quotation in New York have which read in this way: "Spots, so much; sales, none?"

Mr. LATHAM. I think it would show that cotton was worth that money, if there was any for sale at that price.

Mr. SIMS. In other words, is it not a purely offered-and-bid price, and no actual business done as a general rule; and when there are any spots sold, are they not inconceivably small in comparison with the future business done in the same day on the same exchange?

Mr. LATHAM. I will answer that by saying that there is some; but the spot business done in New York or New Orleans or Liverpool either, which is a great spinners' market, is very small as compared with the amount of future business that is done there.

Mr. SIMS. Do hedges exceed the actual business of spot dealing? Do you sell or buy more hedges than you sell or buy actual bales of cotton?

Mr. LATHAM. I think I handle more actual bales of cotton than I handle hedges.

Mr. SIMS. Then the great bulk of the dealing on the New York Cotton Exchange is not hedges, not controlled by spot dealings, but is purely speculative or gambling transactions? Is not that the honest truth?

Mr. LATHAM. I could not answer that, sir.

Mr. SIMS. You are not a member of the cotton exchange?

Mr. LATHAM. Yes, sir; I am.

Mr. SIMS. You are?

Mr. LATHAM. Yes, sir.

Mr. SIMS. And yet you do not know what your own exchange does?

Mr. LATHAM. I do not live there.

The CHAIRMAN. Mr. Latham, can you state what, in your opinion, would be the effect upon all the branches of your business—first as a cotton grower, then as a cotton broker, and then as a cotton merchant—in case future dealings upon the New Orleans and New York exchanges could be eliminated?

Mr. LATHAM. As a cotton manufacturer I should say that the cotton mills are usually well organized and well equipped with money. They are rich. Their borrowing capacity is nearly always great, because their names are good. In addition to that, they have a large amount of assets. I should say that so far as the cotton manufacturer was concerned, it would enable him to purchase at low prices in the season of abundance—September, October, November, and December, particularly—when the farmer must sell in many cases from necessity, and in a great many other cases from inclination. There are a lot of people that can not hold their cotton, no matter what sort of commands they get. When they get ready, it must be sold. They want to sell; it is their natural disposition in many cases. I would say that if the cotton were forced upon the market in those months, without the aid of future transactions, the tendency would be to make the price very low, and the manufacturer would go in and buy at that time when the farmer needs a place to store it, and needs the money that he would receive from it. Therefore, I should say, at the front end of the season cotton would always be depressed, or nearly always so, and at the tail end of the season it would probably bring high prices.

The CHAIRMAN. And on the average would that be to the advantage or the disadvantage of the mill man?

Mr. LATHAM. I should say that the mill man would not suffer materially from that.

The CHAIRMAN. What would you say about the broker?

Mr. LATHAM. So far as the dealing of the broker is concerned, it would probably greatly enlarge the field of cotton dealers; it would make a great many of them go into that business.

The CHAIRMAN. Please state that again; I did not catch it.

Mr. LATHAM. I believe doing away with hedges—that is, if it could be done—would increase the number of cotton dealers. I am answering that on the assumption that there will be no way of hedging, either in Havre or Liverpool or New York or New Orleans.

The CHAIRMAN. Yes; that is quite right.

Mr. LATHAM. I suppose you assume that in your question?

The CHAIRMAN. I do.

Mr. LATHAM. That all sorts of dealings in futures would be eliminated from the cotton trade?

The CHAIRMAN. Exactly. You are not of the opinion then, which was expressed here yesterday, that the elimination of the future market would put the cotton brokerage business into the hands of two or three large firms?

Mr. LATHAM. I think it would put it into the hands of a great many large firms, who would buy cotton so low that they could afford to average it instead of to hedge it, as they now do.

The CHAIRMAN. Would that be to the particular disadvantage of the cotton brokers? Would it cripple in any way the cotton brokers?

Mr. LATHAM. I think it would, as they now exist. I believe it would.

The CHAIRMAN. But do you think that they could readjust themselves to the changed conditions and go on and continue to do business?

Mr. LATHAM. I doubt it very much. That would be particularly so of the weak brokers—those who are financially weak.

The CHAIRMAN. You think the weaker ones would probably have to leave the field?

Mr. LATHAM. I think they would.

The CHAIRMAN. And it would be only the strong firms that would remain?

Mr. LATHAM. I think so; yes, sir.

The CHAIRMAN. Will you give us your judgment about the effect on the cotton grower?

Mr. LATHAM. I believe it would be hurtful to him.

The CHAIRMAN. Through depressing the price?

Mr. LATHAM. I believe it would.

The CHAIRMAN. If it depressed the price to the cotton grower, I presume it would correspondingly reduce the price of the goods manufactured from the cotton?

Mr. LATHAM. Not necessarily, sir.

The CHAIRMAN. That would not necessarily follow?

Mr. LATHAM. No, sir; not necessarily.

The CHAIRMAN. Is there not a pretty uniform parity between the price of cotton and the price of cotton goods?

Mr. LATHAM. There is a relation, but not a uniform parity.

The CHAIRMAN. To a layman, that sounds a little bit like a dis- nction without a difference. Can you explain the difference?

Mr. LATHAM. Yes, sir; I can. In the summer of 1907—was that ie time we had the panic?

The CHAIRMAN. Yes; the fall of 1907.

Mr. LATHAM. We had the panic in the fall of 1907. In the spring ad summer of 1907 I believe cotton was selling around 11 cents. [ay I ask some of the members of the cotton exchange here, who ay be more conversant than I am with that matter, about that? /as 11 cents about the price, Mr. Marsh?

Mr. MARSH. From 11 to 12; yes.

Mr. LATHAM. About 11 cents, or around that. Cotton goods at iat time would average at a higher price than they are selling now, ith cotton at about 15½ cents to the manufacturers. Cotton is :lling at primal points throughout the South at about an average of 5 cents, at any rate. That makes the cost to the manufacturer bout 15½ cents on the average.

The CHAIRMAN. You say cotton goods were selling higher in the pring of 1907, with cotton at 11 cents, than they are now with cot- m at 15 cents?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. Evidently one of those conditions is abnormal.

Mr. LATHAM. Yes, sir.

The CHAIRMAN. Which was the abnormal condition? Were cotton oods abnormally high in 1907, or are they abnormally low now?

Mr. LATHAM. They were high then, sir. In answering that ques- ion, I can hardly make all my illustrations here at home. As I id in the first part of my testimony about 65 or 70 per cent of all ie cotton we produce in America goes across the seas. If we had ery bad business abroad (which might or might not have been the ase at that time, because I have not the figures before me), we iight have had wonderful prosperity in this country, as we did have; nd therefore we might have been able to have kept the price high ere at home. I will further mention the fact that since that time, r certainly in the past five years, there has been a perfectly tremen- ous increase in spindlage and loomage here in the United States. think in five years it has increased at least 20 per cent.

Mr. MENDELBAUM. May I ask the gentleman a question in that onnection? Was the increase in spindlage only in the United States, r was not the same thing true in Great Britain and Europe?

Mr. LATHAM. I do not think it has increased relatively so much here.

The CHAIRMAN. The increase of that spindlage would have a endency to introduce greater competition?

Mr. LATHAM. To place the markets more in competition with each ther. In addition to that, up to that time we had been exporting great many cotton goods, and here in the last few years (which would ccount for the relatively low price of cotton goods now) we have argely lost our export trade in cotton goods. The buyers of export oods have either not bought at all, or they have supplied themselves rom some other section than the United States.

The CHAIRMAN. But as a general proposition, I presume it is true hat a low price of cotton means a low price for cloth?

Mr. LATHAM. There is that natural relation; yes, sir.

The CHAIRMAN. And if the elimination of future dealing on the exchanges should mean a permanent depression in the price of cotton to the grower, it must mean—ultimately, at least—a permanent decline in the price of goods to the consumer?

Mr. LATHAM. I would not consent to that, sir—not wholly. It might do so in part, but not wholly.

The CHAIRMAN. You stated, when expressing your opinion of the effect which the elimination of futures would have upon the manufacturer, that on account of the necessity on the part of some growers and the inclination on the part of others to rush their crop to the market as soon as it was ready, you thought the spinner would be able to buy cotton cheaper. Is it not true that cotton is rushed to the market now just as soon as it is ready by these same classes of people?

Mr. LATHAM. Yes; that is true.

The CHAIRMAN. In what way, then, does the existence of a future market enable these early sellers to get a better price than they otherwise would; or do they, as a matter of fact, get a better price?

Mr. LATHAM. Yes, sir. The advantage to the early sellers of the existence of a future market is that it places a great many buyers in cotton that are not buying for the legitimate purposes that they would if they had to spin the cotton. In other words, there are a great many buyers of cotton in the early fall months based upon the actual short crop, or the low price, or the belief in a short crop, that go in and buy cotton because they believe it is a good article of merchandise to buy; and to that extent the market is not left entirely alone to the spinner.

The CHAIRMAN. Do you think that is more of a stimulant to the market than would be afforded, if there were no futures, by the actions of spinners who would feel that the best policy for them was to accumulate a supply of cotton to carry them through the season?

Mr. LATHAM. It is human nature, when they go to accumulate a large stock of anything, to wish to buy it cheaply.

The CHAIRMAN. Yes; but if a large number of people are seeking at the same time to accumulate a large stock, would not the natural result be to enhance the price?

Mr. LATHAM. I think that would depend entirely upon that price, which is movable. Some economists in the country have tried to figure out to a nicety—I have even tried to do so myself—what it costs to produce a pound of cotton. No two authorities will agree as to the exact figures. But there are a great many intelligent men in the South that can tell you to-day, with the new cost of labor and the high cost of living, approximately what it costs, on the ordinary valuation of lands, to produce a pound of cotton.

The CHAIRMAN. But it rather looks to me—and I should like your opinion on this—as if the competition between men who want real cotton, to make real cloth, to fill real contracts, to get real money, would be quite as apt to stimulate the price as the competition between men who want phantom cotton, to fill phantom contracts, in the hope of getting real money.

Mr. LATHAM. I think, sir, that you are possibly not looking at that in this way: The ordinary man that objects to trading in futures believes that when a bale of cotton is sold, that is the end of the cotton. But that is not so by any means. That cotton will go back to the mill store, and will be used twelve months after that. I paid

a claim a few days ago from a local mill down in North Carolina on some bolly cotton bought in Texas fourteen months ago. So that cotton has been in existence until two weeks ago, when it was opened, and found to be partly mixed in the middle. It had some imperfections in it—I do not know what. The claim was something like 20 pounds off on one bale of cotton. But you only start on the cotton when the farmer sells it. It has to be stored away to use. We use 1,000,000 bales of cotton a month, or approximately so. For the past few years that has been our approximate consumption. Some months it has run more than that, and some years less. Last year we ran considerably more than that.

The CHAIRMAN. How much was that?

Mr. LATHAM. A million bales of American cotton a month.

Mr. SIMS. You mean the world uses that much?

Mr. LATHAM. The world; yes.

Mr. CONE. May I ask Mr. Latham a question, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. CONE. In the fall of 1908, when it was known that we had made the biggest crop the world had ever made, is it not your opinion that if it had not been for the speculators of the East and of the North, cotton would have gone very much lower than it did go, if they had not come in as purchasers?

Mr. LATHAM. I believe it would.

The CHAIRMAN. To get at my idea and to follow Mr. Cone's question with another one, your answer to his question was made upon the assumption that there was a future market, and that into that market speculators came; and of course you could not have answered differently from the way you did. Every one who has given even the most casual study to this question must admit, I think, that the existence of a future market must have a tendency to stimulate the price at the beginning of the season, for the very reason that you suggest.

Mr. LATHAM. Yes.

The CHAIRMAN. That is because of the competition of men who believe that cotton is going to be higher in the course of the year than it is at the particular time. But the point upon which I was asking your opinion was this: Suppose that for the competition of these speculators who are buying for no other purpose than speculation there were substituted the competition of men who had to have the cotton, or they could not deliver their contracts. What then would be the effect upon the price? Taking Mr. Cone's question, if there had been no future market in 1908 and the dealers had known that they could not buy a future and tie up somebody else with a contract to deliver cotton to them, but that they must go out and get their own cotton, would not that have furnished a stimulant quite as much as was supplied by the future market?

Mr. LATHAM. No, sir; because the number of the force would be so much less. You have the spinner there all the time, who is going to buy a certain amount of cotton. The dry goods business is a very variable business. In some years you can go into North Carolina or Georgia or New England, and you will find the mills on an average at least six months ahead. In the spring of 1908, preceding the panic, I believe all the mills in America were committed ten months ahead. At the present time the mills are not committed ahead at all. Therefore if this crop had been a very large one, without the

aid of speculation the disposition of the manufacturer would have been to let the farmer carry his cotton, unless it should get down to the cost of production, when it is always safe to buy.

Senator SMITH, of South Carolina. Mr. Chairman, right in that connection, may I be allowed to ask Mr. Latham a question?

The CHAIRMAN. Certainly.

Senator SMITH. I want to bring out just one thing. In the dispatches in the papers we very often see that on a scale-down, on a declining market, stop-loss orders were reached, and that broke the market still further. Those stop-loss orders are fictitious sales. Now I want to ask this question:

We are trying to get at what relation hedging bears to stimulating or tending to control the price of cotton. Take the little exchanges, the warehouses, your connections all through the South: You are a member of the cotton exchange. You drop a wire into every little village, town, hamlet, and city of the South. Here is a contract: I put up $100 to buy 100 bales of cotton. I put up 20 points to cover it. Five times 20 is 100. That is $200 on one contract. I put up that 20 points. I tell my broker or agent down in Georgia or South Carolina, "When the market has gone down 20 points I can not protect it any further, so let it go." By letting it go I have lost, not simply the commission, which is $15—$7.50 to the man who is your agent in my town, and $7.50 to you in New York—but I have lost the $100 I have bought it with, and the $100 margin I put up to protect it with.

Do you not honestly believe that the wild fluctuations in the cotton market are due entirely to the easy means by which the members of the different exchanges can get together, compare their sheets, know how many orders they have gotten throughout the country, and then, irrespective and without any regard whatever to whether the crop is 100,000,000 bales or 500,000,000 bales, drop it down and clean up these fellows who have no way of protecting themselves? Is not that so?

Mr. LATHAM. I do not think I can answer that question.

Senator SMITH. Do you not believe that is the cause of the fluctuations—the desire to clean up these fellows who have no way of protecting themselves?

Mr. LATHAM. I do not know of any commodity in the United States, from eggs to buttermilk, that does not fluctuate.

Senator SMITH. But the point I want to make is this——

The CHAIRMAN. Pardon me, Senator. I understand that Mr. Latham is a citizen of North Carolina, engaged in manufacturing and brokerage, and has not had any personal experience on the floor of the exchange. Perhaps your question would be a little more pertinent when some of these other gentlemen take the stand.

Senator SMITH. But, Mr. Chairman, he is a member of the exchange and I am not a member of it, but I know that to be a fact.

The CHAIRMAN. I should assume, however, that the question you are asking him could only be answered by a man who was right on the floor of the exchange.

Senator SMITH. Yes; but as he is under oath and I have to leave, and I am vitally interested in this matter——

Mr. LATHAM. Inasmuch as the Senator has to leave, may I ask him a question?

The CHAIRMAN. If he will submit to it.

Senator SMITH. Why, certainly.

Mr. LATHAM. Senator, you asked me if I did not know that it was a fact that when these stop-loss orders are placed in New York, the fellow having to pay $100 first, and second to put up another hundred dollars, and saying to the broker, "I can not respond any further, and you must sell me out when I get down to that point," the members of the New York Cotton Exchange or New Orleans Cotton Exchange—I do not know which you are illustrating on; but I suppose both come under the same head, do they not?

Senator SMITH. Yes.

Mr. LATHAM. That the brokers would get together and compare sheets and force a decline down, and that you knew that to be so?

Senator SMITH. No; I did not say that. I did not say that they would get together. I said they did it. Just two weeks ago I was in a place where these little orders were coming in; I do not know whether it was a "wild cat" or whether it was what we call a "blind tiger." I saw in there fellows of such a class that if you cut off their heads you would not have got blood enough to wet a pocket handkerchief. That break came, and all the little fellows were gone.

Yesterday the question was asked by this committee, or this morning, why these dealers go to New York and hedge. It is not the commission on cotton they are after; it is those margins of a dollar a bale that are put up that they clean out. Now, listen—and I want the committee to catch this idea clearly: It was obligatory upon New York to cease to be a spot cotton market for the reason that if they wanted to take the risk of selling thousands of bales on contract and be forced——

Mr. MENDELBAUM. Mr. Chairman, I should like to ask the Senator whether he is asking questions of Mr. Latham or whether he is testifying? If he is testifying, I wish you would put him under oath, as you do the rest of us.

The CHAIRMAN. He is always under oath.

Mr. MENDELBAUM. He has stated here several things as absolutely true from his knowledge, and I dispute that they are true. I want him put under oath.

Senator SMITH. I am perfectly willing.

The CHAIRMAN. The committee will come to order. Senators and Representatives are always under oath, and their testimony before any committee is so regarded. Gentlemen who think that Senators or Representatives making statements here are misinformed will have an opportunity at the proper time to give their views.

Mr. MENDELBAUM. I know; but, Mr. Chairman, if they make their statements as witnesses under oath I agree with you fully. I have no fault to find. Then they are placed in a position where we can get at the truth and can cross-examine them. We believe that we have the same right to cross-examine a Senator or a Congressman as we have to cross-examine any other witness.

Senator SMITH. I shall be glad to have you cross-examine me, sir.

The CHAIRMAN. The Senator will proceed with his statement.

Senator SMITH. I want to make this further statement, Mr. Chairman. It was brought out in the cross-examination of Mr. Parker, to which I will refer, that the "tail wagged the dog." I want the committee to see clearly what, in my mind, the connection is. If the persons making these enormous sales of cotton on the New York

or New Orleans exchange had to deliver white spinnable cotton on those contracts upon demand, they would not dare to have the fluctuations they have. But when the market can be depressed within a week a hundred points in the face of a supply, then it becomes such a fascinating game that these men from the South know that up to the time that the bucket shops and illegitimate wire houses were driven out they were crowded from day to day, and got not simply commissions, but the margins put up to make purchases. Then, when the market got too low, is it not a common expression—do you not know it, and do I not know it—that "a reaction is due?"

Mr. LATHAM. Yes.

Senator SMITH. Why, certainly. "We have cleaned them up going down; now let us start them back, and get them going and coming." Is not that so?

Mr. LATHAM. But, Senator, could not a man clean himself up?

Senator SMITH. Why, I am not here to speak of the morals of the people. Did not the United States Government put its hands on the Louisiana lottery, and say: "You can not put up a fascinating game to clean the country up through the unfortunate disposition of mankind to gamble?" And what we are doing in this committee is to try to prove that the gambling aspect of dealing in cotton has superseded and overshadowed and submerged the legitimate business, and we are going to stop it.

The CHAIRMAN. Mr. Latham, of course the particular purpose of this inquiry is to get the opinion of men engaged in the cotton business as to the legitimacy and the necessity of the future market. I do not care to protract your examination unduly; and to get your opinion, if I may, in a nutshell, I should like to inquire if I am right in understanding you to say this: That in your judgment, if futures were eliminated the cotton spinner could readily adapt himself to the change of conditions, and the cotton brokerage business would suffer no particular change except, perhaps, to shift the business from the smaller to the larger dealer, and that the chief burden of the change in the way of financial loss would fall upon the growers? Do I state your position accurately?

Mr. LATHAM. I think that it would fall more largely upon the grower than upon anyone else, because I think the others could adjust themselves to it. It would disarrange the present buying business of the country—there is no doubt about that—by eliminating a great many of the small people.

The CHAIRMAN. Has any member of the committee any further questions?

Mr. COCKS. I should like to ask Mr. Latham a question. Mr. Latham, you spoke about the difference between hay and cotton—that is, you assumed that we all think that "cotton is cotton." From your remarks it might be inferred that "hay is hay;" that there is no difference in the grades, and that it is not just as liable to vary in grade as cotton. Is that the idea?

Mr. LATHAM. My idea in bringing up that remark was this: Suppose you take a mill that spins a specialty in cotton. There are some days when it can make a contract which would be desirable on the known relation of what other cotton is fetching, and what that class of product would be bringing. The manufacturer knows it is desirable to enter into that contract. But simultaneously he can not go

d secure his exact needs for his mill. As I illustrated it a while e might want full inch-and-an-eighth bender cotton, and at I have been unable to buy that cotton for a period of two or lays at a time. We could not get it offered at any price. If ill were to go ahead and sell its product for twelve months of time without having the cotton in sight, or having it secured, rate, it would be undertaking a speculation which men of good ss acumen would say was too far away for the mill to go.

Cocks. But there would be no reason why the mill man could ve that cotton in the warehouse though?

Latham. Are you going to have it in the warehouse in advance selling of the goods?

Cocks. Yes; certainly.

Latham. Then you would have the mill speculating on a per- tremendous volume of cotton, which might also break you. is danger at both ends.

Cocks. If a man has to deliver a cargo of prime timothy hay 1st day of next June the only way for him to be sure of doing it ouy that hay and warehouse it, unless he can contract for it ome person that he considers responsible.

Latham. That is all so, but you can buy a cargo of prime ıy hay a great deal easier than you can buy a thousand bales ı-and-an-eighth full bender cotton.

Cocks. Of course I can not go into that, because I do not about it, but I know that sometimes the market is bare of prime ıy hay, in case a man wants to get it to fill a large order, and I ed one was as hard or as easy to get as the other on short notice.

Latham. But here is a mill that does contract (as I have known o contract) at least eighteen months ahead. They get to run- n some specialty that is found to be salable, and they can make ract with some dry goods jobber who takes from them all they ake for a specified time—eighteen months in that case.

Cocks. Is not that true of the iron trade? Do not the rail- contract for iron to be delivered a long way ahead?

Latham. I know that in order to get structural material you o contract for it; but how far ahead those contracts go I do not But I can tell you this: I believe I am not misinformed when ou that the man that sells you the iron owns 75 per cent of the ct that comes out of the mines.

Chairman. But there are iron factories which own no mines, ıat still make contracts a long way ahead.

Latham. Yes, sir; I will admit that. But in the case of the bulk of iron business, the men own the mines as well as they he ore on the lakes, and they own the steamships that haul it, ıey own everything all along. Therefore, if they sell something they are selling what they have, and not what the other fellow

Chairman. Are there any further questions?

Latham. And if they accumulate them, they are dealing with own goods and not with another fellow's.

Chairman. Are there any other questions?

Lever. Mr. Latham, coming back to the effect of futures spots, I should like to call your attention to the following

statement in one of the commercial papers of New York, printed this morning:

The New York spot market was quiet, with 5 points advance. Middling was quoted at 14.25 cents. A year ago the price was 9.85 cents. Sales, 3,260 bales.

I understood you to say, in answer to Mr. Sims's question, that that quotation was posted at 2 o'clock in the day?

Mr. LATHAM. Yes, sir. Pardon me, Mr. Chairman; I think that is the exact hour. It is about that.

Several GENTLEMEN. That is it.

Mr. LEVER. Well, about that?

Mr. LATHAM. Yes, sir; that is the regular time.

Mr. LEVER. Now, I want to ask you, as a matter of reason and as a matter of fact, whether that quotation would have any effect whatever upon the price of spot cotton during that day?

Mr. LATHAM. Will you repeat that question, sir?

Mr. LEVER. I want to know whether the quotation of spots upon the New York Cotton Exchange yesterday at 14.25, with a sale of 3,260 bales, had any effect whatever upon the price of spot cotton in the South?

The CHAIRMAN. That same day?

Mr. LEVER. That same day.

Mr. LATHAM. I should think it would; yes, sir.

Mr. LEVER. How could it possibly have any effect upon the price of cotton from 9 o'clock in the morning until 2, when the posting was made?

Mr. LATHAM. Of course it could not anticipate it.

Mr. MENDELBAUM. May I make one remark in connection with that question?

Mr. LEVER. Yes; I shall be very glad to have you answer that.

Mr. MENDELBAUM. The posting of the quotation is simply the statement that cotton during that day sold at that price. The posting does not make the price. The posting is simply the evidence of the fact that cotton has sold at that price.

Mr. LEVER. You post futures, however, Mr. Mendelbaum?

Mr. MENDELBAUM. Yes, sir; but the posting of the price does not make the price. The posting is simply the evidence of the fact that cotton sold at that price up to that time. It is so in New Orleans, and it is in all the spot markets in the South, and it is so in Liverpool.

Mr. LEVER. Now, just one moment: You post your futures every five or ten minutes, or every one or two or three or four or five minutes; do you not?

Mr. MENDELBAUM. I do not understand you.

Mr. LEVER. I say, you post the price of futures every one or two three or four or five minutes, do you not?

Mr. MENDELBAUM. Every sale; every transaction.

Mr. LEVER. And those sales sometimes take place half a dozen in a minute?

Mr. MENDELBAUM. Oh, sometimes half a dozen in one minute.

Mr. LEVER. Yes; half a dozen in one minute—that is what I say.

Mr. MENDELBAUM. Yes, sir.

Mr. LEVER. But you do not post your spots until 2 o'clock in the day?

Mr. MENDELBAUM. No, sir. The specific sales of spots are not counted until half an hour before that time.

Mr. LEVER. That being the case, I want to ask Mr. Latham, coming back to his question (because I know he wants to put himself on this record in the correct position), if the effect of the quotations of spot cotton on the New York Exchange has any effect whatever on the price of spot cotton in the South from 9 o'clock in the morning until 2 o'clock in the afternoon, when the majority of the business is done?

Mr. LATHAM. Mr. Chairman, I do not think it is fair to ask me that question, because that would be anticipating the time. Some one would have to know in the South, or I would have to know, what the quotation at 2 o'clock was going to be in order to answer that. Therefore I must ask the gentleman to withdraw that question. I do not think it is a fair question.

Mr. LEVER. Mr. Chairman, I submit that the question is a fair question; because I am endeavoring to bring out from Mr. Latham whether the spot quotations on the New York and New Orleans exchanges control the spot prices, or whether the futures do it.

A GENTLEMAN. It is the same thing.

The CHAIRMAN. I presume Mr. Latham would have no difficulty in saying that a buyer in Greensboro could not be influenced by a quotation that he had not received. That is really the purport of the question.

Mr. LATHAM. That would really answer his question, sir.

Mr. LEVER. That really answers my question. Now, then, if you are not governed by a quotation which you would have to anticipate and which you do not know, what are you governed by in your trading on cotton from 9 o'clock in the morning until 2 in the day?

Mr. LATHAM. We are governed by the spot quotations as published in New York and New Orleans at 2 o'clock every day for the following morning. We also receive every morning a cable from Liverpool, about half past 8 o'clock, which gives the opening market there in practically the biggest spot market in the world. That is the biggest spinners' market. It is surrounded by spinners. We get that news from Liverpool, which gives the price at which spinners can buy cotton on the spot, or at which they can buy cotton for delivery in any one of the months, running up for eight or ten months ahead. We use that along up until 10 o'clock, if any business offers.

Mr. LEVER. Then what do you do?

Mr. LATHAM. We continue to get that until 11 o'clock, eastern time, here.

Mr. LEVER. And then what?

Mr. LATHAM. At 10 o'clock we commence to get the New York and New Orleans market quotations, telling what buyers and sellers——

Mr. BURLESON. Quotations on futures, you mean?

Mr. LATHAM. Yes, sir.

Mr. LEVER. Future markets?

Mr. LATHAM. Yes, sir.

Mr. LEVER. And then you are governed by the future quotations during the balance of the day?

Mr. LATHAM. Yes, sir.

Mr. LEVER. Now, just one other question: I should like you to give the committee your idea of the value of hedging as it affects both the spinner of cotton and the producer of cotton.

Mr. LATHAM. I think the ability of the spinner to hedge enables him to place his contracts forward for a longer time than he would be able to do if he were unable to hedge; and it makes his business much safer. For instance, we will illustrate by the case of a little mill. Suppose a little mill uses 500 bales of cotton a month. That is not a large mill, as you gentlemen know. But 500 bales of cotton at the present time is worth $40,000. Suppose the mill man should have an opportunity to contract the product of his mill for ten months ahead, which I believe even the people who are opposed to trading in futures in cotton would not believe was wrong—that is, for a cotton mill to sell what the mill could make for ten months ahead. They admit that we could do that. You would say: "He must go into the market at once and buy his cotton." I happen to live down in a community where money is not so abundant as that. It would take $400,000 in clear cash to pay for enough cotton to run that mill for ten months, and to enable it to properly hedge itself.

In addition to that, there might be times when we would be running out of scarcity into promised abundance. For instance, that contract might be offered some time in the month of July, we will say, this year; and everybody knows that cotton this year is scarce, because we have made a mighty short crop. But we also look over to the next crop, and we see that there is a promise of a large planting in the South; and in anticipation of that cotton is selling lower than it was selling in the summer time. Therefore, it would probably not be good business for that mill to go into the market and buy that $400,000 worth of cotton in anticipation, when they see lower prices probably ahead; and, in addition to that, they could not finance it. But (coming directly to your question) if the mill man is permitted to hedge, it would not cost him a great sight of money to put up his margin even if he had to put up any margin at all, to make his hedge—and he might not have to put up any margin at all; and he could go ahead and buy the option. He might buy 200 bales of March cotton, 200 bales of May cotton, 200 bales of July cotton, and 200 bales of August cotton, which would cover his eight or ten months' supply of cotton; and he would take up that cotton as it came along and spin it.

Mr. LEVER. Let me state a case, and see if I get clearly in my own mind the method of hedging. A cotton-mill man in North Carolina buys 500 bales of spot cotton in Greensboro for his mill?

Mr. LATHAM. Yes, sir.

Mr. LEVER. He immediately telegraphs his broker in New York to sell him 500 bales of Julys, in order to protect him, "hedge" him, against his purchase? Is that correct?

Mr. LATHAM. That might be so in some cases. It is not so in every case.

Mr. LEVER. That is ordinarily so, though; is it not?

Mr. LATHAM. It is frequently so.

Mr. LEVER. It is frequently so. Is not this the effect that follows from that: That your system of hedging thereby makes your mill man a natural bear upon the market and a natural depressing agent upon cotton?

Mr. LATHAM. I do not assent to that, sir, for this reason: Inasmuch as he has already bought so that he may sell, thereby making a hedge, the man that he bought the cotton from was the natural depresser of the price, whether he was a dealer or whether he bought it from the

farmer direct. That cotton, in other words, was going to be sold to somebody.

Mr. LEVER. Is it not to the interest of the man who sells futures on the New York Exchange to have futures go down? Can he profit at all except by futures going down if he sold upon the market?

Mr. LATHAM. Do you mean that he is trying to make his money by speculation pure and simple?

Mr. LEVER. I mean as a hedge.

Mr. LATHAM. Not at all, sir.

Mr. LEVER. It is not in his interest for the market to go down?

Mr. LATHAM. No, sir.

Mr. LEVER. If he has sold cotton?

Mr. LATHAM. Not necessarily. I know manufacturers that are short of futures at the present time (if you will permit the expression), in New York and possibly in other markets, that are honestly and thoroughly desirous of the market going up at the present time.

Mr. LEVER. Then you do not agree with Mr. Parker, who testified before the committee the other day, that hedging makes the spinner a natural bear upon the market?

Mr. LATHAM. No, sir.

Mr. LEVER. You do not agree to that?

Mr. LATHAM. No, sir.

Mr. LEVER. Just one other question: Will you explain to the committee your idea of the meaning of "fixed differences," and their effect upon prices?

Mr. LATHAM. Yes, sir; I will. I will attempt to do that. The world has become accustomed to sell cotton in a commercial way on the basis of middling, in some places on a basis of strict middling, and in some other places on a basis of good middling.

Mr. LEVER. Just one moment there. What is the manufacturer's basis?

Mr. LATHAM. The manufacturers try to buy even-running grades, even-running staples. Of course we have some mills that are making a low grade of stuff, that can spin practically everything; and they will buy almost anything that is cheap.

Mr. LEVER. What is the ordinary grade—middling or strict middling?

Mr. LATHAM. I suppose the ordinary grade of cotton throughout the world is middling and a little better—middling to strict middling. That would be the crop average, if that is what you mean to ask.

Mr. MARSH. May I ask the witness one question on that point?

The CHAIRMAN. Yes.

Mr. MARSH. That would be the average normal crop—middling to strict middling?

Mr. LATHAM. Yes; that is what I mean to say.

Mr. MARSH. Now go ahead.

Mr. LATHAM. Now, as to the fixed difference. The fixed difference exists in New York and New Orleans at the present time.

Mr. BURLESON. You are mistaken; you do not mean that.

Mr. MENDELBAUM. Not in New Orleans.

SEVERAL GENTLEMEN. No.

Mr. LATHAM. It does not? I thought it did. Well, it does exist in New York.

Mr. MENDELBAUM. It does not exist in New York, either. It is changed twice a year. It is the difference that is changed twice a year.

Mr. BURLESON. If Mr. Latham is going to explain that, I want Mr. Latham to explain it. If he can not do it, I should like to have somebody else do it.

Mr. LEVER. I want him to give his opinion as to the value and effect of it and the purpose of it.

The CHAIRMAN. I think Mr. Latham understands the question.

Mr. LATHAM. I think so; and I am glad you called my attention to that point, because I might have assumed that the committee know more about it, probably, than they do. Therefore I am glad to have the gentlemen to interrupt me to explain that the fixed difference is changed twice a year, and that that is the system that prevails there. Is that what you wish me to talk upon, particularly?

Mr. LEVER. Yes.

Mr. LATHAM. What was your question, exactly?

Mr. LEVER. I should like to know what is the value of your fixed-difference system to the cotton trade?

Mr. LATHAM. The value of the fixed-difference system to the cotton trade is as a matter of economy. Cotton is a very expensive thing to handle. Even to hold an arbitration on cotton is an expensive thing and adds to its cost. If you are buying and selling something where you know exactly what it is in January, and you know that it is going to be the same thing in February, when you are going to deliver it to somebody else, the element of speculation would not enter into your calculation the same as it would if there was what is called an arbitrary difference, which might be one thing to-day and might be very materially changed thirty days hence. You might suffer simply by the change in somebody's frame of mind in thinking that it would not grade a certain thing thirty days from now, or that it graded that much more. Therefore your operation would be much more speculative on an arbitrary difference than it would on a fixed difference.

Mr. LEVER. The chairman suggests that you answer the question whether or not you think the fixed-difference system in New York is preferable to the commercial-difference system in New Orleans?

Mr. LATHAM. I do, sir.

Mr. LEVER. Why?

Mr. LATHAM. In the first place, a large part of the business in New York is the clearing-house business of the world, and it obliterates the speculative situation that I mentioned in my last remarks. It is known what you are dealing with. You know in January what you are going to get in February, and you know in February what the difference is going to be in March. They change the differences twice a year, when they think they know what the outcome is going to be, according to what the crop is going to be, its grade, etc. They can largely forecast it. Then they change the differences in New York to meet that.

Mr. LEVER. What have you to say as to the fairness of the New York contract?

Mr. LATHAM. I think it is a perfectly fair contract, sir. I have bought thousands of bales of cotton in New York, and received them, and shipped them to the South and to Europe; and I have

delivered thousands and thousands of bales of cotton upon the New York market when it was the highest market in the world.

Mr. LEVER. Mr. Latham, do you think any contract is a fair contract that puts it in the option of one man to deliver upon the contract anything he wants to deliver within 23 or 24 grades?

Mr. LATHAM. I do, sir, if the other man buys that sort of a contract. It takes two to make the contract.

Mr. LEVER. It puts him absolutely at the mercy, however, of the seller of the cotton.

Mr. LATHAM. If you had a hundred city lots, and somebody were to buy one of those lots, and you as the seller were to deliver him such a lot as you pleased, you would give him the lot that was least salable, unless he was a very good friend of yours. Then you might give him a better lot.

Mr. LEVER. In the commerce of the world, do you know of any other business that has such a contract as the New York cotton contract, which gives the option as to delivery entirely to the seller?

Mr. LATHAM. Yes, sir; grain contracts are made in the same way.

Mr. LEVER. But if you went out into the market and bought a carload of 2-year-old steers for delivery in July, would you permit the seller of those steers to deliver to you 1-year-old steers in July?

Mr. LATHAM. No, sir; I would not. But if the seller of those steers had given me a contract in writing that he was going to deliver me 2-year-old steers at $10 apiece, with the option of giving me 1-year-old steers, at $5 apiece, that would be his contract.

Mr. LEVER. Is it not true, Mr. Latham, that the fact that you have a contract on the New York Cotton Exchange which gives to the seller the option of the kind of cotton that he shall deliver within a range of 23 or 24 grades has the effect of making the buyer of that cotton give a less price for it, because he knows that he runs a risk of having cotton put upon him that he can not use commercially?

Mr. LATHAM. I should like to have you repeat that, sir. It was such a lengthy question that I rather got lost.

Mr. LEVER. Let me see if we can not modify it somewhat. I will make this statement: You have 23 or 24 grades of cotton in New York which are deliverable upon contract?

Mr. LATHAM. I think there are about 20 grades; yes, sir.

Mr. LEVER. The ordinary spinnable grade of cotton throughout the world is middling to strict middling?

Mr. LATHAM. No, sir; I deny that there is any sort of cotton, even Texas bolly, but what can be spun.

Mr. LEVER. I say, the ordinary grade. The majority of the mills use that, do they not, Mr. Neville? I understood you to make that statement a moment ago.

Mr. NEVILLE. What is that?

Mr. LEVER. That the majority of the mills of the country use middling to strict middling?

Mr. NEVILLE. No, sir; you misunderstood me. I said the average grade of a normal crop is middling to strict middling; not that the spinners use it. If Mr. Latham will pardon me just to answer your question, the spinners the world over try to buy strict middling cotton.

Mr. LEVER. That is it. So that as a matter of fact the ordinary basis for the spinner is strict middling cotton?

Mr. LATHAM. Yes, sir; that is true.

Mr. LEVER. Now, you have 23 or 24 grades here. Under your New York contracts you can deliver any of those 23 or 24 grades to the spinner who is buying your contract. He buys 100 bales of cotton according to your contract. You may deliver to him any one of 23 grades. He wants strict middling cotton. He can use that in his business. Is it not a fact that necessarily, in order to protect himself against these low grades, he must give a lower price for the strict middling cotton? Is not that the effect?

Mr. LATHAM. No, sir; I do not think so.

Mr. LEVER. You do not think so?

Mr. LATHAM. I do not think so.

Mr. LEVER. You are a member of the exchange, Mr. Latham?

Mr. LATHAM. Yes, sir.

Mr. LEVER. You have a regular contract which you enter into when you buy cotton?

Mr. LATHAM. Yes, sir.

Mr. LEVER. The regular form of contract which we had set out here?

Mr. LATHAM. Yes, sir.

Mr. LEVER. If you bought 500 bales of cotton on the New York Exchange to-day, you would enter that upon your books, would you not?

Mr. LATHAM. Yes, sir.

Mr. LEVER. Would the New York Cotton Exchange enter it upon their books anywhere?

Mr. LATHAM. I do not think the New York Exchange does any business as an institution. It is a meeting place for members.

Mr. LEVER. There would be no record at all kept of that transaction on the New York Exchange?

Mr. LATHAM. On the New York Exchange?

Mr. LEVER. Yes.

Mr. LATHAM. That I can not answer, sir. Since my dealings would be with an individual member of the New York Exchange, he would naturally keep a record; and he probably would also keep a record with the man he tied the other end to.

Mr. LEVER. You do not know whether or not they keep such a record?

Mr. NEVILLE. A record of the price is kept.

Mr. LEVER. But not of the amount?

Mr. NEVILLE. Not of the amount.

Mr. LEVER. So that only one party to the contract keeps a record of the contract?

Mr. LATHAM. Why, certainly; the man that takes the other end of it would keep a record of his end of it.

Mr. LEVER. And your association here, at which you meet, does not have any record at all of the amount of sales, that you know of?

Mr. LATHAM. I do not know whether they do or not, sir.

Mr. BEALL. I understood Mr. Latham a moment ago to say that the practice of delivering cotton different from the grade that is actually bought has a parallel in the grain exchanges of the country?

Mr. LATHAM. Yes, sir; and also in the coffee exchanges.

Mr. BEALL. Is the practice the same? I notice that this report of Mr. Smith's says this, speaking of grain:

In order to relieve the seller of danger of corners and squeezes, he is permitted to deliver several grades, but under conditions which amount to a penalty; though if he delivers a better grade of wheat than No. 2 he gets no "difference on," or premium, but is forecd to deliver it at the same price as No. 2.

Is that the same practice that prevails on the cotton exchange?

Mr. LATHAM. No, sir; no, sir. The better you deliver the more you get for it on the New York Cotton Exchange.

Mr. BEALL. If the seller delivers a better grade of cotton than you have contracted for, he gets that difference?

Mr. LATHAM. Yes, sir; he does.

Mr. BEALL. In dealing on the grain exchange he does not, according to this statement.

Mr. LATHAM. I simply accept that. I do not know the custom on the grain exchange.

Mr. BEALL. "This clearly amounts to a penalty"—so states Mr. Smith.

Now, let me ask you this question: Under the present system, so far as I can see, there are about four classes that are especially interested in the price of cotton—the producer, the handler (the man that deals in it after it leaves the hands of the producer), the spinner, and the speculator. Do you know of anybody else that is especially interested besides those four classes?

Mr. LATHAM. I should think that pretty well covers it, sir.

Mr. BURLESON. No; the ultimate consumer has some interest in it.

Mr. BEALL. Of course the ultimate consumer consumes it in a form different from cotton. If the exchanges were eliminated, I understand that the system of dealing in cotton could be changed so that the producer could still continue to produce it and dispose of it. If the system were changed, the man who handled cotton could still continue to handle it, could he not? He might have to revolutionize the system, but he could still continue to handle it.

Mr. LATHAM. I think so; yes, sir.

Mr. BEALL. The spinner would still continue to spin it, would he not?

Mr. LATHAM. Yes, sir.

Mr. BEALL. Then the only class of people who would be eliminated from the cotton trade would be the speculators. If the exchanges were eliminated, and there were a revolution of the system, the only man that would be eliminated would be the man who now speculates in future contracts. So far as you can see, is not he the only one that would be completely eliminated?

Mr. LATHAM. I think so; yes, sir.

Mr. BEALL. Now, it is my understanding that the prdoucer is willing to take the risk of having these exchanges eliminated.

Mr. LATHAM. Who is that, sir?

Mr. BEALL. The producer.

Mr. LATHAM. Yes, sir.

Mr. BEALL. I understand that the spinner is willing to take the risk of having the cotton trade revolutionized by the elimination of the exchanges. Is that your understanding?

Mr. LATHAM. I should like to ask you, sir, if you think you can eliminate the exchanges of cotton of the world, or if you are going to eliminate only the American exchanges?

Mr. BEALL. We are working on the exchanges here at home for the present. The spinner is willing for them to be eliminated; is he not?

Mr. LATHAM. I do not think the spinners are, as a class.

Mr. BEALL. But many of the spinners are?

Mr. LATHAM. I think they are, sir.

Mr. LEVER. The majority are.

Mr. BEALL. The majority of the spinners are willing that they shall be eliminated?

Mr. LATHAM. No, sir; I do not agree to that, sir.

Mr. BEALL. Well, in the case of the men who handle cotton, I understood Mr. Cone to say yesterday that he could probably make more money with the system changed than he makes now. Is it your judgment that men situated as Mr. Cone is, who deal in spot cotton, with the intelligence that they possess, would be as well off with the exchanges eliminated as they are now? Do you think his statement was correct in that regard?

Mr. LATHAM. I believe the men who are in the position that Mr. Cone is would be as well off.

Mr. BEALL. He is in the position of being a purchaser and seller of cotton.

Mr. LATHAM. Yes, sir.

Mr. BEALL. That class of people would be as well off with the exchanges eliminated?

Mr. LATHAM. Anyone that has ability to make money by the average system would not be hurt. In other words, if I am strong enough financially to buy a thousand bales of cotton at 12 cents a pound, and if it goes to 11 cents a pound buy another thousand, and if it goes to 9 cents a pound buy 2,000 more, that law of averages is bound to win in the end. But the little fellow can not average that far, and he is therefore put out of the market as a buyer.

Mr. BEALL. Let us assume, then, that the little buyer would be to some extent eliminated.

Mr. LATHAM. Yes, sir.

Mr. BEALL. But the ordinary buyer, the man who buys cotton in considerable quantities for the purpose of selling it to the spinner, would be in as advantageous a position with the exchanges eliminated as he now is?

Mr. LATHAM. I expect he would make as much money.

Mr. BEALL. And would make as much money?

Mr. LATHAM. I expect he would; yes, sir.

Mr. BEALL. I have heard a good deal said here about objections to the elimination of these exchanges from the producers and the opinion expressed that it would result in injury to the producers. After giving this warning to the producers and putting them on notice of the fact that they would probably be hurt by the change and be put at the mercy of the spinners, if the majority of the spinners still insist upon the elimination of the exchanges, and if the handlers of cotton (the buyers and sellers of spot cotton) would be in position to make as much money under a different system as they make now, do you not think the experiment is worth trying? If these parties, after you gentlemen have served notice on them that they will probably be injured, are still willing to take the risk, do you not think the experiment is worth trying, even if it eliminates the speculator?

Mr. LATHAM. So far as the speculator is concerned, I think the contract might probably be surrounded with some features, that I am not here to suggest, that would eliminate him to a considerable extent.

Mr. BEALL. Do you not believe the situation would be better if the speculator, pure and simple, were eliminated to a very considerable extent?

Mr. LATHAM. I do not, sir; I do not. I believe the progress of the country would be hampered.

Mr. CONE. May I ask a question of Mr. Latham, Mr. Chairman?

The CHAIRMAN. Certainly.

Mr. CONE. Do you not think, Mr. Latham (you are a Democrat and I am a Democrat), that the situation as applied to cotton would be rather like the situation you and I discussed—the silver question? It would be rather like it would be with the experiment of trying free silver. [Laughter.]

Mr. MENDELBAUM. Mr. Chairman, may I ask a question?

The CHAIRMAN. Let us have one question at a time.

Mr. LATHAM. I am afraid you gentlemen are going to find out my politics if you keep on asking questions.

The CHAIRMAN. I think Mr. Cone will realize that his question is hardly pertinent.

Mr. BEALL. Let me ask you one more question: There is a certain risk in the cotton trade, is there not?

Mr. LATHAM. Yes, sir.

Mr. BEALL. From the time the cotton is planted up to the time it is gathered, that is the farmer's risk? He has to bear that risk alone, has he not?

Mr. LATHAM. Yes, sir.

Mr. BEALL. From the time it is gathered until it is made into cloth there is a certain element of risk in dealing in it. You people buy this cotton and you hedge on it. What is the purpose of that hedging?

Mr. LATHAM. To make the risk as small as possible.

Mr. BEALL. To eliminate the risk as far as possible?

Mr. LATHAM. Yes, sir.

Mr. BEALL. That does not lessen the risk somewhere along the line, does it? When you hedge, you simply turn the risk over to somebody else?

Mr. LATHAM. You say it does not lessen the risk? I rather think it does, sir.

Mr. BEALL. It lessens it so far as the party who hedges is concerned; but somewhere along the line, upon somebody, rests the same risk that rested before.

Mr. LATHAM. No, sir; I disagree with you on that. I will illustrate what I mean.

Mr. BURLESON. Does not the man who furnishes the hedge take the risk of the hedge?

Mr. LATHAM. He is this "outsider" you are talking about, that is going to get "skinned." [Laughter.]

Mr. BEALL. I am talking about the world in general now.

Mr. LATHAM. The farmer is in the habit of marketing from two to three million bales of cotton a month.

Mr. BURLESON. You do not understand the question he asked you, Mr. Latham.

Mr. LATHAM. Will you ask it again?

Mr. BEALL. There is a certain amount of risk in handling cotton, is there not?

Mr. LATHAM. Yes, sir.

Mr. BEALL. Somebody has to bear that risk. That is a fact, is it not?

Mr. LATHAM. Yes, sir.

Mr. BEALL. When you buy the spot cotton, you want to shift that risk, and so you hedge on it?

Mr. LATHAM. Yes, sir.

Mr. BEALL. By doing so you have eliminated the risk in that transaction as far as you could?

Mr. LATHAM. Yes, sir.

Mr. BEALL. Now, the spinner comes along, and he buys the cotton. He hedges on it. He eliminates the risk so far as possible in his case. That is a fact, is it not?

Mr. LATHAM. Yes, sir.

Mr. BEALL. Upon whom does the risk ultimately fall? Who is it that has to bear the burden of all that risk, from the time the seed is put into the ground until the time when the cotton is delivered to the spinner?

Mr. LATHAM. This process of hedging and taking care of the risk by several people might ultimately liquidate itself so that nobody would lose.

Mr. BEALL. It would be a sort of a perpetual motion?

Mr. LATHAM. I believe, since I have been here, that a question was asked, if you will let me illustrate it——

Mr. BEALL. I should be glad to have you.

Mr. LATHAM. I believe a question was asked of one of the witnesses as to who lost the money that it was rumored Mr. Patten made. I do not remember what the witness's answer was, but my answer to that question, I think, will answer yours. It is simply this: Nobody lost that money. Somebody failed to make it. Here cotton was selling twelve months ago (as has just been stated by one of the gentlemen asking questions) at 8.75 in New York. I think that was the price, was it not?

Mr. LEVER. 9.85.

Mr. LATHAM. 8.75 in New York. Mr. Patten probably went into some market of the world and bought a line of cotton. Perhaps he bought it at 8.75, if he was very wise. If he did not, perhaps if he was a wise man he bought it at 9.75. But he might not have bought it until he bought it at 10.75. And from whom did he buy it? He bought it from somebody that wanted to sell. More than likely that man was a farmer, because he is the man who is the original source of all the supply. He bought it from that farmer that wanted to sell the cotton, because that farmer, in the first place, might have needed the money. He might have been perfectly satisfied with the price. So Mr. Patten went ahead, and bought that cotton at 10.75, we will say, and held it until it got to 16 cents a pound; and then he said: "I am satisfied, and I am going to sell it."

I respectfully submit to you, sir, that nobody lost that money, but that the original holder failed to make it, simply because he did not have the same acumen to hold on that Mr. Patten did.

Mr. SIMS. Right there, let me ask this question: Your idea is that Patten made his money by buying spot cotton, and not futures?

Mr. LATHAM. I do not know, sir, which he bought.

Mr. SIMS. But you can not illustrate it, the way you are doing, otherwise than by his buying the actual spot cotton.

Mr. LATHAM. I think you can, sir; but suppose he bought futures?

Mr. SIMS. Suppose he bought futures, and closed them out; did not some man always lose what he made?

Mr. LATHAM. Not necessarily, sir. Suppose a cotton-mill man had had 10,000 bales of cotton in his warehouse against which he had no goods sold, and he said: "Well, I can not afford to run the risk of my mill having this tremendous stock of cotton here without something sold against it." It is a speculation, you know, when he does that, to lay in these large volumes of raw material without something being sold against it.

Mr. SIMS. He did not sell cotton; he sold contracts.

Mr. LATHAM. The spinner says: "I am going to spin this cotton as I need it, but I have no goods sold against it. Therefore, in order to limit my loss on my profit right here, I will sell 10,000 bales of futures against this cotton that I have here in my warehouse." He sells it. Mr. Patten takes the other end of it. Four months after that the spinner finds that he is ready to use the 10,000 bales of cotton. Instead of cotton being 10.75, it is up to 15 cents. "Well," he says, "my goods have gone up about the same amount as cotton." So he closes out his future end, and he still has the cotton, which he can not buy from anybody else at 10.75, but which is worth 15 cents to him then. So the spinner in that case failed to make that additional amount of money that Mr. Patten or the other speculator made; but it was not the fact that anybody lost it.

Mr. SIMS. Where did Patten get his money on those 10,000 bales when he never got the bales and they were never delivered?

Mr. LATHAM. He transferred his contracts to somebody else.

Mr. SIMS. Then was not that a speculative loss equal to a speculative gain?

Mr. LATHAM. I do not see any speculative loss. I see a speculative profit.

Mr. HEFLIN. The producer lost that difference between 10 and 15 cents.

Mr. LATHAM. No, sir; he did not lose it. He failed to make it.

Mr. LEVER. How do you account, upon your theory, for the number of failures of speculators?

Mr. LATHAM. We find failures in all classes of business.

Mr. LEVER. I know; but you have announced the remarkable proposition here that somewhere in the world, somehow, by somebody, something is lost which somebody finds of value which nobody lost. That is the remarkable statement you have made of the workings of the exchange. In other words, somebody gets rich off of something that nobody lost.

Mr. LATHAM. I have known in my life a piece of real estate to be transferred twenty times, and every man made a profit out of it. That is the result of natural accretion.

Mr. LEVER. But does not your proposition prove this—that, after all, the man who gets rich on the New York Cotton Exchange is dealing in "phantom" cotton, as expressed by the Chairman, rather than something that exists?

Mr. LATHAM. No, sir; I do not agree to that.

Mr. LEVER. You think Mr. Patten made his $5,000,000 in dealing with spot cotton, then—the actual stuff?

Mr. LATHAM. I have no idea how many millions Mr. Patten made. I have an idea that he did not make as much as that.

Mr. LEVER. Assume that he made five millions, however.

Mr. LATHAM. I think that would be a very large amount to assume.

Mr. LEVER. Well, one million, then. Did he make that one million in spots or futures, do you know?

Mr. LATHAM. I understand that Mr. Patten has a considerable stock of spot cotton in New York at the present time. I understand he has shipped some of that spot cotton out of New York City to southern mills. I am not advised as to that, because I do not know Mr. Patten myself, and have no connection with him.

Mr. LEVER. As a matter of fact, Mr. Latham, do you know how many bales of cotton there are now in New York certified to-day or yesterday?

Mr. LATHAM. I can give you a "horseback" opinion of about 160,000 bales.

Mr. LEVER. How much would that be worth?

Mr. LATHAM. That is worth about $75 or $80 a bale. That runs up into figures that I am not in the habit of handling, sir.

Mr. LEVER. That would be divided, of course, among a large number of spot dealers—Mr. Weldon, Mr. George H. McFadden, and others there who are spot dealers. So that Mr. Patten could not have $5,000,000 worth of spot cotton in New York, could he?

Mr. LATHAM. I do not think he could; no, sir.

The CHAIRMAN. Have you finished your line of questions, Mr. Beall?

Mr. BEALL. Yes, sir.

The CHAIRMAN. I have just one more question to ask you, Mr. Latham. I believe you said you were a manufacturer as well as a dealer?

Mr. LATHAM. Yes, sir.

The CHAIRMAN. In your experience as a manufacturer, have you suffered any loss or disturbance in your trade by reason of the rapid fluctuations of the speculative market? To give you a concrete case: Mr. Parker, who was here a few days ago, testified that when cotton recently went down some fourteen or fifteen dollars a bale, it disturbed the market for cotton goods. Purchasers, noting the fact that cotton had gone down, were unwilling to pay the price which had been asked for cotton goods, and which had been fixed when cotton was up. Mr. Parker said that he frequently had that difficulty—that would-be purchasers looked at the speculative price, and did not take into account the fact that the spot price might not have followed it. As a result, he said, the disturbance to his business was so great that he thought he would be better off if there were not any speculative market. What has been your experience as a manufacturer in that respect?

Mr. LATHAM. My experience is that these waves of speculation come, and for a time they do unbalance business, but it speedily readjusts itself.

The CHAIRMAN. And you think that on the average it is better for the manufacturer to have the speculative market?

Mr. LATHAM. I think so; yes, sir.

The CHAIRMAN. Have any other members of the committee any questions?

Mr. LATHAM. Instead of saying "speculative market," I would rather you would say "future market."

The CHAIRMAN. I used that term as synonymous with "future market."

Mr. LATHAM. Yes, sir.

Mr. HOWELL. Do you believe that if this speculative business were eliminated the market in cotton would be more stable, or would you have these sudden fluctuations that unbalance the trade even if you did not have any stock exchange.

Mr. LATHAM. Even if you could eliminate the exchanges of the world—Havre and Liverpool and Bremen and the exchanges of this country—I believe the fluctuations would still be as violent as they are at the present time. They might not be, however. When I say "violent" I do not mean that they would act so quickly, but I believe the extremes from high to low would be quite as great as they are at the present time.

Mr. COCKS. Are futures dealt in on all the exchanges of the world?

Mr. LATHAM. No, sir.

Mr. COCKS. Where are they not dealt in—I mean outside of the United States? Which markets do not deal in them?

Mr. LATHAM. I do not know, sir. I can tell you that they do deal in futures on the Havre Exchange and the Liverpool Exchange. I am not certain whether the Bremen Exchange has a future contract or not, but I believe it has now.

The CHAIRMAN. Have the members of the committee any further questions?

Mr. MENDELBAUM. I should like to ask a question. Mr. Latham, you have testified here, as to the position of the cotton goods market in 1907, that the mills were sold ahead in this country ten and twelve months; and in Europe, as you probably recollect, they were sold as much as a year and a half ahead. Was not that caused by the trade speculation at the time in manufactured goods?

Mr. LATHAM. Yes; I think it was.

Mr. MENDELBAUM. Is not the reverse the case this year?

Mr. LATHAM. Yes, sir.

Mr. MENDELBAUM. That is all I want to ask.

Mr. BROOKS. I just want to ask a couple of questions. I understand from your statements that you do not believe that there are any evil features of the exchange business as now conducted?

Mr. LATHAM. Will you repeat that question, Mr. Brooks?

Mr. BROOKS. I say, is it your position that the exchanges, as now conducted, have no evil features?

Mr. LATHAM. No, sir; I did not say that.

Mr. BROOKS. What is your statement on that point?

Mr. LATHAM. Do you wish to know my opinion on it?

Mr. BROOKS. Yes, sir.

Mr. LATHAM. I believe that the privileges of the exchange are frequently abused by people that have no business trading, that are incapacitated and unable to trade.

Mr. BROOKS. Is that the fault of the exchange or the fault of the people?

Mr. LATHAM. I think that is the fault of the people.

Mr. BROOKS. Then the evil that the exchange does is due to the people that deal on it instead of to its rules and regulations?

Mr. LATHAM. I think so; yes, sir.

Mr. BROOKS. Are the people that do this evil members of the exchange or these outside uninformed masses?

Mr. LATHAM. I would not undertake to separate them. They are all people; and the man that abuses a thing, whether he is a member of the exchange or not, is equally guilty.

Mr. BROOKS. Those abuses hurt you?

Mr. LATHAM. They hurt the individuals.

Mr. BROOKS. I notice that the commission that were appointed by the New York legislature last year use the following language in their report, speaking of these exchanges:

> In its nature it is in the same class with gambling upon the race track or at the roulette table, but it is practiced on a vastly larger scale.

Do you think that is a correct statement?

Mr. NEVILLE. Mr. Chairman, if you please, if Mr. Brooks is to read part of that report, I respectfully request that the entire report be made part of this record.

The CHAIRMAN. How long is the report?

Mr. BROOKS. I have not the report with me.

Mr. NEVILLE. I protest, Mr. Chairman, that it is not fair to the witness or to the question under discussion before the committee to take one paragraph from that report, which may follow something entirely different, or be followed by something entirely different.

Mr. BROOKS. Mr. Chairman, I suppose the committee can get hold of one of these reports.

Mr. BURLESON. Surely, when the question is asked the gentleman can state whether or not he concurs in the correctness of the statement. Then he can make any explanation he sees fit.

Mr. BROOKS. This sentence stands or falls upon its own merits as a statement.

Mr. HEFLIN. Mr. Chairman, just one word——

The CHAIRMAN. My opinion upon that point is this (if you will permit me, Mr. Heflin): If any gentleman, in asking a question, produces matter that other gentlemen think is not a fair representation—for instance, if the sentence which Mr. Brooks has read is regarded by Mr. Neville as not a fair statement of the substance of the report—I think Mr. Neville should have the privilege, at the proper time, of putting in other statements from that report that would correct any misapprehension that might thereby be created.

Mr. HEFLIN. That was the point I wished to make.

The CHAIRMAN. But, at the same time, I think the sentence which Mr. Brooks has read merely as a postulate for a question might be admitted, and that the witness should answer the question.

Mr. MENDELBAUM. But, Mr. Chairman, the point is this: The part which Mr. Brooks has read here might lead you gentlemen to believe that the committee reported adversely to the exchange, while the reverse is the case. In every instance it upheld the exchange.

The CHAIRMAN. The committee is familiar with that report, I take it; and my understanding is that Mr. Brooks simply referred to it in order to make his question clear to Mr. Latham. He could just as well have asked his question without having read the sentence; and I presume he can shape his question now so as to avoid reading it.

Mr. NEVILLE. As long as we have an opportunity of presenting the verse of that proposition, that is all we care about.

Mr. HEFLIN. Mr. Chairman, my point was along the line suggested y the chair. Mr. Brooks has the right to pick out any sentence that e wishes to pick out, and propound that sentence in the form of a uestion to this witness, and have an answer from him. Then, if [r. Neville wants the whole record to go in, when his time comes, he as the right to put it in. But he can not suggest now a whole mass of atter to Mr. Brooks about what should go in, when he wants to parate that from other matter.

The CHAIRMAN. I think all objection would be obviated if Mr. rooks could frame his question independently of the statement.

Mr. BROOKS. All right.

Mr. LEVER. I should like to suggest that the committee does not are to place itself in the attitude of refusing information; and, as ar as I am concerned personally, I should be very glad to have the port go in the record.

The CHAIRMAN. That is a matter the committee can take care of t the proper time.

Mr. NEVILLE. I am not a lawyer; and if I "butted in" prematurely, wish to apologize to the committee.

The CHAIRMAN. No apology is necessary.

Mr. NEVILLE. But being familiar with the report, and having ap- eared before that committee for four days——

The CHAIRMAN. Your interruption was perfectly proper, Mr. [eville. Let Mr. Brooks now ask his question.

Mr. BEALL. Before he does that, let me suggest that that is not to e interpreted as a ruling that Mr. Brooks's question as originally resented was an improper question?

The CHAIRMAN. Not at all.

Mr. NEVILLE. I did not mean to imply that.

Mr. BROOKS. Then, Mr. Latham, do you think that the so-called 'gambling" that is carried on on the exchanges to-day is in the same lass as race-track or roulette gambling?

Mr. LATHAM. I am not sufficiently posted about horse racing or oulette gambling to answer the question. [Laughter.]

Mr. BROOKS. Do you believe that it involves practically a certainty of loss to those who are engaged in it?

Mr. LATHAM. I do not believe it involves a certainty of loss.

Mr. BROOKS. Practically a certainty of loss?

Mr. LATHAM. No, sir; I would not admit that.

Mr. BROOKS. Do you believe that it causes a continuous stream of wealth to be taken from the actual capital of innumerable persons of relatively small means and go to swell the income of brokers and operators?

Mr. LATHAM. Will you read that again, sir?

Mr. BROOKS. Do you believe that the practice causes a continuous tream of wealth to be taken from the actual capital of innumerable ersons of relatively small means and go to swell the income of rokers and operators?

Mr. LATHAM. No, sir; I do not admit that, for the reason that I lo not think the bulk of the money that either goes to or goes from New York is sent there by people of relatively small means; some of t is sent by such persons, I do believe; but the laws that have been

passed, particularly in the South, have prevented the trading in futures by people that are not professionals in the business, and the laws for the abolition of bucket shops and the general prevention of that business are laws that ought to be enforced as fully and as harshly as they are.

Mr. BROOKS. Then do these evils that exist apply to these people of relatively small means or people of considerable wealth?

Mr. LATHAM. Well, I do not know that my knowledge would extend that far; but I do know that in the old days of the South, when there was a bucket shop in nearly every town, that the country doctor, the country lawyer, and the postmaster, as well as everybody, went down to see the quotations and got to trading in futures.

Mr. BROOKS. Do you think there is less future dealing done now, that there was less volume in the last year than there was then?

Mr. LATHAM. I do; yes, sir.

Mr. BROOKS. In the New York Exchange?

Mr. LATHAM. I do; yes, sir.

Mr. BROOKS. Well, do you think, without having a continuous influx of new customers replacing those whose losses force them out, that this would not continue as it does to-day?

Mr. LATHAM. I think that the exchanges would yet have a place and that they would continue to go on existing whether there were lambs or not.

Mr. BROOKS. You then think the exchange has no rules or regulations that need modifying or changing?

Mr. LATHAM. No, sir.

Mr. BURLESON. As I gather from your testimony you justify the existence of the New York Exchange because of the facility for hedging there?

Mr. LATHAM. Yes, sir.

Mr. BURLESON. By the merchant, the mill man, and by the cotton producer, if he wishes to do so?

Mr. LATHAM. Yes, sir.

Mr. BURLESON. Now, Mr. Latham, if this facility is not afforded there is no justification, then, for the existence of the exchange, is there?

Mr. LATHAM. I did not quite catch your question.

Mr. BURLESON. If this facility is not afforded there is no justification for the existence of the exchange?

Mr. LATHAM. You mean if no one is to go there to hedge?

Mr. BURLESON. No; I put this question to you, and you answered it in the affirmative; I asked you if you justified the existence of the exchange because of the facility afforded by the exchange for hedging, and you said yes; now, then, if the facility for hedging does not exist upon the exchange it has no justification for existing? I just reversed my question.

Mr. LATHAM. I should say not.

Mr. BURLESON. Now, then, Mr. Latham, I want to ask if it is not a fact that during the past nine years, I will say, the margin of difference between the price of future contracts on the exchange and spot cotton has not been such that instead of eliminating the risk by hedging the risk of the merchant and the spinner has been increased?

Mr. LATHAM. No, sir; I do not think so.

Mr. BURLESON. Now, then, I want to ask you if you concur—you heard the tribute paid to Commissioner Smith's report the other day, that it was a classic on this subject—and I want to know if you concur in this statement——

Mr. NEVILLE. Will you please read the rest of the question?

Mr. BURLESON. I will put my questions in the way I want them and you can cross-examine the witness if you see fit to do so. I want to see whether you concur in this statement of fact made by Commissioner Smith in this report: "From September, 1899, down to the present time, however, the margin has on the whole been very much greater than in earlier years, and, what is far more important, it has fluctuated with much greater violence." Now, then, he goes on and gives some statistics to support the proposition, and winds it up: "This means that merchants using the market for hedging purposes have been more or less constantly subjected to a very serious risk; whereas, as so frequently emphasized, the purpose of hedging is to reduce or eliminate risk. It means, too, that the calculations of speculators as to the movements of the contract price itself have been rendered more difficult and risks consequently increased." Do you concur in the correctness of those two findings?

Mr. LATHAM. Personally, I do not so find.

Mr. BURLESON. Then you think that the Commissioner of Corporations was mistaken in those conclusions?

Mr. LATHAM. No, sir; I didn't answer you in that way; I said as far as my personal operations were concerned they did not coincide with that report.

Mr. BURLESON. Do you know whether or not he is correct in those statements? I want your opinion.

Mr. LATHAM. I have not read the report and I wouldn't care to venture an answer.

Mr. BURLESON. I asked you whether, in your opinion, the Commissioner of Corporations is mistaken when he states that?

Mr. LATHAM. I said to you that he was mistaken so far as my personal operations are concerned.

Mr. BURLESON. But if, as a matter of fact, he was not mistaken, then you concur with the views expressed by the producers and the spinners who have spoken here, that the exchange ought to be eliminated?

Mr. LATHAM. I did not concur in that.

Mr. BURLESON. But if he is correct, and, as a matter of fact, he states that the margin from 1899 down has been so great that it does not afford a hedge——

Mr. LATHAM. I deny that.

Mr. BURLESON. You do not concur in the correctness of his statement, but as I understand it you admit that if he is correct the exchange ought to be eliminated?

Mr. LATHAM. Before making such an admission I would have to read the report carefully.

Mr. NEVILLE. On what page is that, please?

Mr. BURLESON. On page 156.

Mr. LEVER. You can borrow no money on your hedges, can you, from a bank?

Mr. LATHAM. You can borrow money on cotton that is hedged quicker than on cotton that is not hedged.

Mr. LEVER. You do not agree with Mr. Cone, do you, when in his testimony he said you could not borrow money on hedges?

Mr. LATHAM. Well, I could not agree with that.

Mr. CONE. I beg your pardon, if I made any such statement as that I must have been so embarrassed I did not know what I was saying.

Mr. LATHAM. I think, Mr. Lever, in order to answer your question, that these hedges are considered by people that are in the business of cotton dealing as insurance more than anything else. If you were to ask me if I could borrow money on my policy, on which I had covered my cotton, it would be about the same as your question as to borrowing money on hedges.

Mr. LEVER. I understood your testimony and that of Mr. Cone to go to the effect that the hedging system permitted small dealers in cotton to do business.

Mr. LATHAM. It does make it easier for them.

Mr. LEVER. That they could borrow money on hedged cotton anyway?

Mr. LATHAM. Yes, sir; that upon cotton that is hedged the risk is, to a large extent, eliminated.

Mr. LEVER. You are not a banker?

Mr. LATHAM. Well, I am interested in a bank.

Mr. LEVER. Well, how much money per bale will your bank loan on cotton?

Mr. LATHAM. At the present time?

Mr. LEVER. Yes.

Mr. LATHAM. Well, that depends largely upon the borrower; the first risk that a bank must determine is the moral risk, and then comes in the ability risk, and next the question of collateral; that is the manner in which I look at it as a banker.

Mr. LEVER. So that your bank would be willing to loan money to a man of good moral standing on his hedged cotton?

Mr. LATHAM. Yes, sir.

Mr. LEVER. Cotton that your bank knew did not exist, as a matter of fact?

Mr. LATHAM. Then how could it be hedged if it did not exist?

Mr. LEVER. Does all your hedged cotton exist?

Mr. LATHAM. Yes, sir; it does exist.

(Thereupon a recess was taken until 2 o'clock p. m.)

AFTERNOON SESSION.

The committee reconvened at 2 o'clock p. m., Hon. Charles F. Scott (chairman) presiding.

TESTIMONY OF MR. ARTHUR R. MARSH, VICE-PRESIDENT OF THE NEW YORK COTTON EXCHANGE.

(The witness was sworn by the chairman.)

The CHAIRMAN. Will you be kind enough, Mr. Marsh, to givè your name and official designation to the stenographer?

Mr. MARSH. My name is Arthur R. Marsh. I am vice-president of the New York Cotton Exchange. I am engaged in the cotton commission and brokerage business.

The CHAIRMAN. Would you prefer to proceed for the present without interruptions, until you have made the statement you have in mind?

Mr. MARSH. Mr. Chairman, if it is agreeable to the committee, it seems to me that it might be well for me to make a portion of my statement, covering a certain portion of the ground, and then give an opportunity to the members of the committee and to others to ask questions which might bring out the matters indicated in my statement or connected with my statement which they feel require further illustration.

The CHAIRMAN. Very good; then if you will indicate when you are ready to submit to questions, we will govern ourselves accordingly.

Mr. MARSH. I will do so; thank you. Mr. Chairman, the present situation with regard to future trading in connection with cotton, which I have particularly to speak of, is another chapter in the long history of the uneasiness of the producers and the consumers of various commodities with regard to the price which they shall be paid or shall pay for those commodities. It is a well-known fact that when a period of uneasiness of this kind comes along, the class who get the criticism in the first place and most heavily are the merchants who stand between the producer and the ultimate consumer. People generally can not get it out of their minds that the merchant makes the price both ways. It is very hard for the ordinary casual observer to get it into his head that the merchant is not interested in the price, either to the producer or to the consumer. The only thing the merchant is interested in is a sufficient supply and a sufficient demand and a sufficient margin between the price paid the producer and the price which the consumer pays to cover the cost of the merchant's function and to give him a reasonable profit for the capital which he employs and for the brains which he employs in the function which he performs. In spite of that fact, however, Mr. Chairman, it is a well-known fact—and this was pointed out certainly a century and a half ago by the first of the important students of political economy, Adam Smith—that the target, the corpus vile into which the arrows of criticism are discharged, is the merchant. If the price of a given commodity is low, the merchant is charged with making it low. If the price of that commodity is high, he is charged with manipulating the market, enhancing the cost, enhancing the price, and bleeding the consumer. I make this preliminary statement, Mr. Chairman, because the whole position of the New York Cotton Exchange is connected with this elementary proposition in economics in such a way that if this elementary proposition in economics is not borne in mind, a correct conclusion with regard to the New York Cotton Exchange or any cotton exchange or any exchange of a similar character can not be arrived at.

Now, sir, the New York Cotton Exchange is an exchange of cotton merchants. The New York Cotton Exchange has 450 memberships, it has about 425 living members, and those 425 living members are primarily cotton merchants. The function of the members of the New York Cotton Exchange in the world is the function of merchants. It will seem at first sight that I must be emphasizing wrongly the facts when I make this statement. I am not emphasizing wrongly the facts; I am stating exactly what is the case. If I should—and I

think I should—amplify that statement a little, it would be merely to say that the merchant's function is to a certain extent subdivided, and that among members of the New York Cotton Exchange are some who perform that general function of merchant which the world at large knows and sees the merchant perform, and that there are other members of the New York Cotton Exchange who perform subsidiary functions connected with the merchandizing of the cotton crop, subsidiary functions which are essential to the larger and general function of the merchant, but which none the less are in themselves merchandizing functions.

Mr. Chairman, the members of the New York Cotton Exchange handle every year over 80 per cent of all the cotton produced in the United States. They use their capital and their credit for the distribution of this very large percentage of the total cotton production of the United States. They make the banking connections, they make the insurance connections, they make the spinners' connection, they make the connections with the smaller, lesser merchants in the interior who come in immediate contact with the farmers. It is to them that the existence every day and every hour of every day of a market in every town in the South where any farmer can sell his bale or his 100 bales of cotton if he chooses is due. The ramifications of the obligations of these merchants are indescribably great. It would be absolutely impossible for me to enumerate them. It would require a volume to enumerate them, and even then much would escape my attention.

As the world has gone up to date, as the cotton business has developed up to date, this responsibility has fallen upon this class of cotton merchants to perform this function of distributing the cotton crop. I now hear it proposed and advanced that this method of distributing the cotton crop is not a good one; that to leave upon the shoulders of this class of merchants the responsibility of providing the necessary capital and the necessary facilities of every kind from one end of the world to the other is not working satisfactorily to the producer on the one hand or to the spinner on the other. As I understand the position of the gentlemen who have appeared here representing southern farmers' associations, it is that the merchant class which has hitherto carried this responsibility is not doing its work well, from their point of view; that that merchant class, which has been doing this work ever since cotton began to be raised in this country, is affecting the price of cotton injuriously to the producer, or is exacting too large a toll from the producer, or is not giving the spinner the service which he requires for the compensation which he is willing to pay. That, as I see it, is the essence of the proposition advanced by these representatives of the southern farmers' associations; and it seems further to be advanced by these gentlemen that the novel method which they propose of distributing the cotton crop should be fostered by the Government of the United States, that the Government of the United States should step in, should interfere with the methods which the cotton merchants have worked out for themselves, should throw its weight against the long-established usages of this class of cotton merchants, and in other words put these old and established competitors of the new scheme out of business. That in its essence, Mr. Chairman, seems to me to be the proposition of these gentlemen from the South. I state this

in order that we may have it perfectly clear before us, or at any rate that I may have it perfectly clear before me, what the question is essentially which I am to discuss before you.

I shall not undertake to discuss the propriety of the intervention of the Government between two methods of handling and distributing the cotton crop further than to say that it seems to me that in a land of free competition, in a land in which every man who does his business openly and aboveboard and is supposed to have the opportunity to make a success of it if he can—in a country like this, I say, Mr. Chairman, it would seem to me that the reasonable and just attitude of the National Government would be to say to the representatives of these competing methods: "Let the world decide between you. If the one of you has a method better than the other, you will prevail. If the method which is proposed is more just to the farmer, more just to the spinner, more economical, serves the public better, it is a certainty that it will prevail." There is no earthly way in which an unjust and an uneconomical and an unwise method of performing a great function like this can be kept alive. That, Mr. Chairman, I say, would seem to me to be the reasonable method or the reasonable attitude for the Government of the United States to take in regard to these competing and opposing methods of handling this great business. But I will not pursue that matter further. I will come back immediately to the New York Cotton Exchange.

I have said, sir, that the New York Cotton Exchange is an association with 450 memberships, with about 425 living members. Each one of these members is a member of the New York Cotton Exchange purely and simply as an individual cotton merchant. No corporation is allowed to hold a membership in the New York Cotton Exchange. These memberships, with the exception of a comparatively few partnerships among them, are held by cotton merchants who are individually in the freest and keenest competition with each other. There is no business with which I am acquainted in which the principle of absolutely free competition is carried to the extent to which it is carried in the cotton business. There is not a shadow of an agreement between the distributers of cotton, excepting so far as two or three of them may form a partnership with each other. There is the greatest divergence of opinion, there is the greatest divergence of financial connections, the greatest divergence of methods of handling the actual cotton which these merchants buy and ship and dispose of. In other words, there is absolutely free competition.

These cotton merchants, both the merchants whom I may call merchants in a large way and primary merchants, and those merchants who fulfill the subsidiary functions of the merchandising of cotton, have formed this association, called the New York Cotton Exchange, purely and simply for the purpose of agreeing together upon certain rules which they will follow in their trading with each other. The by-laws and rules of the New York Cotton Exchange are simply the rules which have been adopted by this great body of people in free competition with each other, under which they will make contracts with each other. There is, to be sure, the subsidiary function of the exchange fostered by these merchants, that they will gather every kind of information which they can, to be freely used by every one of these competing merchants in his business and in his trading with

every other one of them; there is the further purpose of providing a room in which these competing merchants may meet and may make contracts with each other; but the one great object of their association is to have a body of rules under which they may make contracts with each other—rules which have been worked out little by little through the experiences of different members of the fraternity to guard against mistakes, to guard against misapprehensions, to make every contract which is entered into absolutely free and aboveboard, devoid of all subintentions, devoid of all those elements which cause doubt and lead to embarrassment and to litigation; and that, Mr Chairman, is what the present body of rules of the New York Cotton Exchange consists of.

Now, sir, I desire to lay especial stress upon the fact that this body of rules is a body of rules resulting from the experience of a body of men who have a certain function in the body politic, and that function in the body politic is one which, as things have been organized in the world heretofore, has fallen upon these men. This responsibility is the responsibility of distributing the cotton crop of the United States. Here is a class of merchants. They have grown up because they were needed, as things have been. The world wanted them. They did not embark upon this business, because they were not wanted; they embarked upon it because they were wanted, because no way had been pointed out to get along without them. I understand that now we are to have a way to get along without them. We are no longer to require cotton merchants. We are to have a new order of things, in which the producer of cotton and the manufacturer of cotton are to look each other straight in the face and without any expense of distributing agencies are to pass the raw commodity from the one to the other; but up to date, Mr. Chairman, cotton merchants have been wanted, have been needed, and they have little by little accumulated the capital, acquired the credit, made the multitudinous connections necessary for the performance of their business. They have learned what can be done and what can not be done from the point of view of distributers of this commodity. That is the point, I believe, which is the essential point for the members of this committee to bear in mind.

Now I come to the next point in what I have to say, and after I have spoken upon this I shall be glad to have any questions asked me that members of the committee or others may desire to ask. The particular point of attack upon these merchants who are thus associated together in this present chapter of uneasiness, is their use of what are called "contracts for the future delivery of cotton," or more vaguely and more generally and in the common parlance, "futures." It is claimed that the development of these contracts for the future delivery of cotton disturbs the function of the merchant, causes hardship to the producer and hardship to the manufacturer of cotton, and in particular it is declared, as I understand it, that that whole process, which is the result of a slow evolution in the cotton trade, of using these contracts for the future delivery of cotton as a hedge, is an essentially uneconomic, unwise, unjust, and destructive practice. Mr. Chairman, it is a very difficult matter to answer a contention of that kind. It would seem a priori that when a body of merchants, responsible enough in the eyes of the world to have the handling of 80 per cent of the cotton crop of the United States have arrived at a

certain method of conducting their business, have gradually evolved in their free competition with each other such a method of conducting their business, it would seem, I say, that if that method of doing business is perfectly free, published to the world, open and above-board, why, then that body of merchants might very properly be left to use that method as they saw fit. A priori, it would seem that that is the case; but apparently considerations of that kind are not sufficient to prevent attacks upon this body of merchants and upon their method of doing business, and subsidiary matters are brought in as additional reasons why these people should be cut off from doing business as they have learned to do it. We are told that the development of this method of doing business gives an opportunity for speculation. To make the matter worse, this speculation is, in the case of cotton, called "gambling," and we are told that the demoralizing effect of the opportunity to speculate or to gamble is such that the State ought to intervene and ought to do its utmost to prevent the continuance of this practice.

Mr. Chairman, this is all part and parcel of the old, long story of complaint against the merchant. Anybody who is familiar with economic history at all knows, as I have already said, that at recurring intervals the merchant is blamed for that which he has no control over and no essential interest in, namely, the supply of this commodity or that commodity, and the price which this or that commodity brings. Adam Smith pointed that out. He pointed it out in connection with the dealers in grain. He pointed out that no class in the community is more abused than the grain merchants, that none is more often attacked, that none is more constantly charged with evil practices, and that none is more deserving of the steadfast protection of the State. Now, the clothing of the world has become as important economically as the feeding of the world, and this bitter criticism that used to be extended mainly to the grain merchants is now extended to the cotton merchants, and in proportion as the situation in cotton becomes difficult in that proportion does the criticism increase. We are, Mr. Chairman, as regards cotton, in a most extraordinary position in the world. The world is not producing cotton enough for its needs. If you will examine the bulletins of the United States Census Department you will find that for several years past the world has consumed more cotton than it has raised. You will find that two years ago the world consumed 2,400,000 bales of cotton more than it raised. You will find that last year, in spite of the largest crop of cotton ever produced in America, we succeeded in carrying over only 140,000 bales of it, and you will find that this year the world is producing from three to three and a half million bales less than it consumed last year.

This gives us an economic situation which can be remedied only by such a readjustment of price as will draw capital and draw labor from other productive industries into the production of cotton; and, Mr. Chairman, there is no living man who can tell what price for cotton will do that. The southern cotton producer looks at it not from the point of view of the economist, but from the point of view of what he thinks he ought to get. The consumers of cotton goods, the wives of all of us, look at it not from the point of view of whether

or not there is cotton enough to go around, but from the point of view of their weekly or monthly allowance, which is cut into too deeply by the advancing price of goods. Anybody who studies the situation from an economic point of view knows that the southern cotton producer is going to receive a price for his cotton sufficient to draw capital and labor from other producing industries into the raising of cotton, and that he is not going to receive any more; and the economist knows that our wives have got to pay a sufficient price for sheets and pillowcases to enable the cotton producer to receive a price for cotton that will draw capital and labor from other industries into the production of cotton, and that that price our wives have got to pay, no matter how unpleasant it is, and that all the criticism and all the talk which we may receive at night when we go home will not affect the situation one iota. But, Mr. Chairman, the question is ever before all of us who have anything to do with cotton, and it is an absolutely unanswerable question, a priori, what is that price that will do this, that will draw this capital and labor from other productive industries into the production of cotton; and, Mr. Chairman, nobody knows, and there is no earthly way of finding out except to try; and while we are trying, while we are oscillating near the line which will ultimately be the line, you are going to have all kinds of opinions as to what cotton ought to be worth, you are going to have all kinds of fluctuations, and you are going to have all kinds of criticisms of the cotton merchant. I do not believe there has ever been a time in the whole history of the cotton industry when there has been more uneasiness with regard to the price of cotton than there is at the present moment, and that will continue, Mr. Chairman, as I have said, until this adjustment has taken place, until the world does normally produce cotton enough for its needs, or until the needs of the world are brought down to the normal production of cotton.

That being the economic situation with regard to cotton, Mr. Chairman, you and all those upon whose shoulders rests the responsibility for the wise guidance of the affairs of the State are going to be appealed to from all kinds of directions, and you are going to hear tales of woeful character with regard to the cotton merchant and what he is doing to the price of cotton. And now I come back, Mr. Chairman, to my original statement, that the cotton merchant is not interested in the price of cotton; that it is not his business to be interested in the price of cotton; that the cotton merchant is interested in performing his function, which is that of distributing the cotton which is produced from the place of production to the place of consumption.

One more point in this connection and I am through for the moment. I have heard the question asked here, I think by yourself, sir, why should the cotton merchant or the grain merchant have a method afforded him for passing on the risks of his business which is not afforded to merchants of other commodities? The answer to that, from the point of view of the economist, is a perfectly simple one. It is so enormously important that the capital which has been gathered together for the distribution of the food, the raw material of the food, and of the clothing, of the world, should not be impaired, because the impairment of that capital instantly throws out of gear the whole immense machine of distribution, that the distribution of the risk involved in handling these huge masses and huge values, so that it

may ultimately rest where it has to rest in the last resort, upon the shoulders of the ultimate consumer and upon the shoulders of the producer—I say it is so important to the State—that any system which brings that about has to be touched only with the most careful and with the most timorous hand. That is the justification, Mr. Chairman, for the system by which the cotton merchant is able, through his hedges, through these contracts for the future delivery of cotton, to avoid the impairment of that capital which is absolutely necessary for the safe and easy and sure distribution to the millions of mankind of this indispensable product.

Now, Mr. Chairman, I will pause and will answer any questions that may occur to anybody.

The CHAIRMAN. Mr. Marsh, I wish first of all to compliment you upon and to thank you for the very illuminating and lucid statement you have made. It leaves no possible room for misapprehension upon the part of the committee as to your own attitude and point of view, and that of course is what we are trying to get at.

Mr. MARSH. Yes, sir.

The CHAIRMAN. I think, however, that you have a little misapprehension as to the purpose and intent of the measures we are considering. In the course of your observations you remarked that it was now proposed to eliminate the merchant class in the cotton trade. That is not the purpose of the bills before the committee. They recognize, as the committee recognizes, that the merchant is an indispensable intermediary between the producer and the consumer of cotton, and the committee recognizes also, as the bills recognize, that contracts for future delivery of any commodity are absolutely essential to any sort of commercial operation; so that we are not trying, there is nobody proposing, to eliminate the cotton merchant. The only purpose of the bills, as I understand them, is to eliminate the man who, buying cotton, has no intention to receive, or selling cotton, has no intention to deliver, and I should be glad if you would remember that in the questions we will ask, because they will all be directed with that point in mind. May I ask you a few questions with reference to the establishment and history of the exchange? How long has the New York Cotton Exchange been in existence?

Mr. MARSH. Since 1871.

The CHAIRMAN. At what time was the practice of future delivering, as it now exists, initiated?

Mr. MARSH. It was initiated first, apparently, in Liverpool in 1868 or 1869, so far as I can find out.

The CHAIRMAN. That was prior to the organization of your exchange?

Mr. MARSH. Yes.

The CHAIRMAN. So that the system has always existed so far as your exchange is concerned?

Mr. MARSH. Always.

The CHAIRMAN. You say there are 450 memberships?

Mr. MARSH. Yes, sir.

The CHAIRMAN. Are we to understand by that that the number is limited to that?

Mr. MARSH. The number is limited to 450.

The CHAIRMAN. And there are about 425 actual members?

Mr. MARSH. Living members; yes, sir.

The CHAIRMAN. And you say its members are all cotton merchants? Do you mean to be understood as saying that all these 425 men actually buy and sell cotton?

Mr. MARSH. I do.

The CHAIRMAN. That they get legal possession of cotton when they buy it and that they make actual deliveries of cotton when they sell it?

Mr. MARSH. I said to you, sir, that a portion of the members of the New York Cotton Exchange fulfilled subsidiary functions of the merchant class. If you will remember, I made that statement.

The CHAIRMAN. I remember that statement, but I did not quite understand what you meant by "subsidiary."

Mr. MARSH. I mean, sir, that a broker who executes for one member of the exchange a contract with another member of the exchange is fulfilling a subsidiary function of the cotton merchant class.

The CHAIRMAN. Are there any merchants among these 425 who, to use the common parlance, deal in margins only?

Mr. MARSH. I have no idea, sir, of any distinct and clear kind, as to what is meant by dealing in margins only.

The CHAIRMAN. I think the common understanding of that would be this, that a merchant goes on the exchange and offers 1,000 bales of cotton for sale at a certain price, or he buys 1,000 bales of cotton at a certain price, with no expectation, on the one hand, of delivering the cotton, or, on the other hand, of receiving it, but merely backing his judgment against the judgment of the man to whom he sells or from whom he buys, as to whether or not cotton will go up or go down.

Mr. MARSH. Mr. Chairman, there is no member of the New York Cotton Exchange whose entire fortune is not responsible for the contracts which he makes with his fellow-members.

The CHAIRMAN. Do you think that is an answer to my question?

Mr. MARSH. It is the only answer that I can give. I do not know exactly what you mean. You speak of trading on margin. Now, do you mean by "trading on margin," trading on credit?

The CHAIRMAN. Oh, not at all; not at all. Perhaps I can make my meaning a little clearer. It has been stated by preceding witnesses that cotton merchants in the South, when they sell cotton which they do not have immediately in their warehouses, in order to protect themselves buy cotton on the New York Exchange.

Mr. MARSH. Yes.

The CHAIRMAN. And they call that a hedge.

Mr. MARSH. Yes.

The CHAIRMAN. And I do not think anybody would criticise that particularly. It has been stated here that there are not more hedges than there is cotton; that there are not as many bales of cotton, in fact, covered by hedges as are actually handled; and yet the impression is general that there is sold and bought upon the New York Cotton Exchange, in the course of the year, many times the total cotton crop of the world. So there must be a great many exchanges which do not involve the delivery of actual cotton and which can not be accounted for by the hedging system, and it is to those exchanges that my question is directed—exchanges which do not involve either the hedging system or the actual delivery of cotton, which therefore must be made, it seems to me, upon a mere difference of

judgment as to whether cotton is going up or going down; and that is what I meant by "margins."

Mr. MARSH. As I understand your question now, Mr. Chairman, it is simply this: Is there speculation in cotton on the New York Cotton Exchange or on the part of the members of the New York Cotton Exchange, speculation conducted through the entering into of contracts for the purchase or for the sale of cotton, and with the hope of deriving a profit through buying in or selling out those contracts to somebody else at a profit. Is that your question?

The CHAIRMAN. That is a pretty fair statement of it.

Mr. MARSH. There is undoubtedly speculation of that kind on the New York Cotton Exchange.

The CHAIRMAN. Now, I come back to my original question. What proportion of your 425 members are engaged solely in the sort of speculation which you have described? Would it be possible for you to answer that question?

Mr. MARSH. I do not think that any living being could answer that question.

The CHAIRMAN. Well, am I going to gather from that that all your merchants follow both practices at one time or another?

Mr. MARSH. I am not able to say, Mr. Chairman, what all these competing merchants severally do—severally and individually do—in the conduct of their business. We have no way of telling.

The CHAIRMAN. Yes.

Mr. MARSH. We do not show each other our books. We are competitors.

The CHAIRMAN. I will pass that for a moment. You stated that the New York Cotton Exchange handles over 80 per cent of all the cotton in the country.

Mr. MARSH. The members do so. The New York Cotton Exchange handles no cotton. I said that members of the New York Cotton Exchange handled over 80 per cent of the cotton crop of the United States.

The CHAIRMAN. Will you explain just exactly what you mean by that expression? Are we to understand that 80 per cent of the cotton of the United States passes through the hands of your exchange?

Mr. MARSH. I think that is a fair interpretation of my statement.

The CHAIRMAN. They acquire the actual cotton and they sell it?

Mr. MARSH. They acquire the actual cotton and they sell it.

The CHAIRMAN. You have a corporation, I presume?

Mr. MARSH. Yes, sir.

Mr. BURLESON. Will the chairman let me suggest one question? Will you ask Mr. Marsh if they sell that cotton through the New York Cotton Exchange? Following the line of your question, Mr. Chairman, do they sell it through the New York Cotton Exchange?

The CHAIRMAN. You understand the question?

Mr. MARSH. I do not understand that expression. I do not know what the expression "through the New York Cotton Exchange" means.

The CHAIRMAN. I presume Mr. Burleson had this in his mind: Do the men who use cotton buy it—buy the actual cotton—from the membership of your exchange? Was that the point of your question, Mr. Burleson?

Mr. MARSH. I answer that question that they do, but I do not think that is Mr. Burleson's intention.

The CHAIRMAN. Let him state it, then.

Mr. BURLESON. You say that the members of the New York Cotton Exchange actually buy and sell 80 per cent of the cotton crop of the United States?

Mr. MARSH. I do, sir.

Mr. BURLESON. Now, of course, they do not buy this crop from anybody except the producers? They buy the crop from the producers?

Mr. MARSH. They buy it from those who produce it and they buy it from small interior merchants who buy it from the producers.

Mr. BURLESON. You say they sell it as they buy it?

Mr. MARSH. Yes.

Mr. BURLESON. Do they make those sales through the medium of the New York Cotton Exchange?

Mr. MARSH. The New York Cotton Exchange is not a medium for any sales or purchases or trades of any kind or description.

Mr. SIMS. Is it the practice of your cotton exchange or any other cotton exchange to establish rules that would eliminate the character of trading which you have just described, which means that parties buy or sell cotton, whether they are members of the cotton exchange or not, through members of the cotton exchange—not cotton but contracts, buy and sell in and out—just simply for the purpose of getting the benefit of the hoped for profit in the mere trading in a contract, with no intention of that contract ever being executed by an actual delivery? Is it possible for you to so amend your rules or your operations as to eliminate that kind of trading which you mention without eliminating the agency of this function that tends to promote real good?

Mr. MARSH. It is not possible so to amend those rules without becoming an association in restraint of trade, without interfering with the fundamental right of every American citizen to buy whatever he wishes to buy or to sell whatever he wishes to sell.

Mr. SIMS. Under the law of New York is not the contract which you have just described a void contract, where the parties on both sides have no idea of complying with the terms of the contract?

Mr. MARSH. I have never known such a contract to be made on the floor of the cotton exchange.

Mr. SIMS. Not on the face of it. Of course, on its face it says that it is the actual intention of the party who sells to deliver and of the party who buys to receive. That is the way it reads. But whatever it says on its face, you know as a man of experience—and you have just described it—that a great deal of that business is in fact not as stated on that contract, and that the parties who buy do not intend to receive and do not expect to, and the parties who sell have no idea of delivering. Is it practical to eliminate that and still have the practical work of your exchange go on?

Mr. MARSH. Mr. Chairman, the question, with the accompanying statement, is in itself an insult to me and to every member of the New York Cotton Exchange.

The CHAIRMAN. I do not think it was so intended.

Mr. SIMS. Wait a minute——

The CHAIRMAN. Mr. Sims was simply stating what was the general understanding, and there was no such thought, I am sure, in his mind.

Mr. SIMS. Let him finish. He understands what I mean, I am sure.

Mr. MARSH. Every member of the New York Cotton Exchange when he enters into a contract with another member of the New York Cotton Exchange enters into as solemn a contract as is made in this world, calling for the delivery of that which is sold and the receipt of that which is bought, and the intention of every contract made on the floor of the New York Cotton Exchange is that there shall be delivery of that which is sold and receipt of that which is bought; and to assert that our rules call for one thing and that we consciously and intentionally and dishonestly conduct our business in contravention of those rules is to assert that we are business men unfit to have the credit which we have; to carry the responsibilities which we carry; to fulfill the place in the world's economy which we fulfill.

Mr. SIMS. Now, Mr. Chairman, let me state it. I think the gentleman became insulted either through having misunderstood me or else, perhaps, to make his own position impressive. I did not mean to infer that you entered into those contracts meaning that; but if I go and buy 10,000 bales of cotton on the floor of the exchange through you, you being a member of the exchange and you thinking I intend to do what I propose to do, and some man, some outside operator, sells 10,000 bales of cotton that he does not intend to deliver, those contracts are void under the laws of New York and under the laws everywhere else. What I intended to ask, and a gentleman of your position and experience must have seen what I meant, was this: Could you so manage the cotton exchange as to prevent people from using it for such a purpose—not that you would use it for such a purpose? I did not intend to say anything that would imply any such thing. Is there any way to keep those people who want to do what we call a "gambling" business from doing it through your exchange—not that you gentlemen consciously do it? Nobody thought of making any such charge as that.

Mr. MARSH. Mr. Chairman, every communication between a member of the New York Cotton Exchange and any outside person who desires to buy or to sell contracts for the future delivery of cotton bears printed upon it a statement that it is understood that the transaction is entered into with the intention that the cotton sold shall be delivered and that the cotton bought shall be received. If there is any outsider who will come to a member of the cotton exchange and in the face of that statement, which is put under his eyes from the very start, deliberately request that member of the New York Cotton Exchange to execute for his account a contract which he does not mean to fulfill, then, Mr. Chairman, I do not think there is any system of affidavits or anything else that will protect us from the iniquity of persons of that kind.

Mr. SIMS. Now, then, you have pronounced any such dealings as that which I have described as being iniquitous.

Mr. MARSH. I pronounce all undertakings entered into by any human being with the intention of not fulfilling that which he undertakes to do as iniquitous.

Mr. SIMS. Then, do you blame us for trying to establish legislation, if we can, to avoid that iniquity, if it does exist?

Mr. MARSH. Mr. Chairman, I am against all iniquity. I wish it did not exist.

Mr. SIMS. Further, Mr. Marsh, do you not know—I do not mean as a legal witness but as a matter of those things you know that you can not legally testify—that if I go there and buy 10,000 bales of cotton I am here in Washington and I do not sign it, I do not know what is signed, and yet I may not in my heart intend to receive one bale of that cotton; and you pronounce that as a very great iniquity?

Mr. MARSH. I do, sir.

Mr. SIMS. Is there anything wrong in so legislating, if we can, to prevent men from using the members of the New York Cotton Exchange for such an iniquitous purpose?

Mr. MARSH. Mr. Chairman, I had supposed that under our system of government the punishment of frauds was left to the States. I had not supposed that it was the duty of the National Government to chase down the fraudulent, the perjured, and the malefactors of the community, nor had I supposed that it was the function of the National Government, in its efforts to punish frauds and iniquity, to interfere with that normal and natural and free business intercourse between upright citizens upon which the economic welfare of the country depends.

Mr. SIMS. Now you have, as I think, very honestly and truthfully pronounced such things, such transactions, iniquitous of themselves. They are not crimes; they are not punishable by statute.

Mr. MARSH. My dear sir, they are frauds.

Mr. SIMS. No; how are they frauds?

Mr. MARSH. Mr. Sims, if I show you that every transaction you request me to enter into for your account is a transaction involving the delivery or the receipt of that which you contract for, and you, without telling me that your intention is quite different, still instruct me to enter into that contract for your account, is not that a fraud?

Mr. SIMS. Now, I am going to ask you a question that involves nothing but common sense. Take a merchant who is buying and selling actual cotton—who is a dealer in actual cotton. If you were to receive an order of that sort from him it would not raise any suspicion in your mind; but take me as a practicing lawyer who never saw a bale of cotton in my life, never bought one, and never sold one; if you receive an order of that kind from me you have every reason to believe that I do not intend to receive that cotton. Your common sense tells you so, and you know it. You do not have to have an affidavit put under your nose to make you assume that I am doing that which, as you announce, is a fraud.

Mr. MARSH. Mr. Sims, I see lawyers buying real estate which they have no means to pay for——

Mr. SIMS. There is no use getting off on that. We are talking about cotton now.

Mr. MARSH. I see them speculating in more different directions than any other class of men in the community.

Mr. SIMS. They are very great speculators; but you have denounced these particular transactions as frauds. I say, such an order coming from a merchant or a member of the cotton exchange, there would be no indication to your mind that he did not intend to deliver or receive the cotton; but coming from a man that does not deal in cotton, and who, as you know, has never had anything to do with it, there is at least good ground for you to suspect that he is doing that which you have pronounced an iniquity and a fraud.

Mr. MARSH. And you suggest that the rules of the New York Cotton Exchange could compel me to refuse to take that gentleman's order, telling him to his face that he is a fraud and that the natural presumption as to a citizen of the United States in his favor, that he does not mean what he says, should not apply in his favor in this case?

Mr. SIMS. I do not agree with you that he is a fraud or a cheat, like you say; but you have given us ground to stand on here which we have never had before. The United States Government has the right to withdraw the use of its agencies from such a fraud as this bill is designed to prevent, the use of the mail between States, and of telegraphic and telephonic communication between States, where the use of United States Government facilities is made primarily to aid a fraud and a cheat. Now, how are we infringing on the rights of the State when we are doing that which no State can do—to suppress a fraud and a cheat?

Mr. MARSH. Mr. Chairman, I hardly know what to say in reply to that. The presumption in business circles is that honorable men, occupying an honorable position in the community, are not frauds and are not cheats. When a man holding an honorable position in the community tells me that he believes cotton is a good thing for him to buy, even though he have no use for cotton himself, I do not think that I am in any other position or entitled to any other presumption than if he were to tell me that there is a good piece of real estate up the street which he has not any use for, which he does not want to build a house on nor to have his office on, but which he thinks is a good thing for him to buy because he thinks it will improve in value, and he gives me an order to go and buy it.

The CHAIRMAN. Mr. Marsh, I think it is generally understood, as you say, that the contracts into which you enter call for the actual delivery of cotton if it is demanded; but one of the criticisms against the New York Cotton Exchange, as you are doubtless aware, is that under its rules the option of the delivery rests with the seller, and that you permit so wide a range of cotton to be delivered on your contracts that a man who is actually desiring to buy cotton for use in his mill can not take the chances. Before you answer, in order to make that statement a little clearer, let me read from a letter which I have received this morning. This letter is addressed to the House Committee on Agriculture, so that I take it there is nothing of a confidential nature about it. You may perhaps know the writer. This is written on the letter head of Carpenter, Baggot & Co. and is signed by H. L. Scales.

Mr. MARSH. I know Mr. Scales.

The CHAIRMAN. The letter is as follows:

CARPENTER, BAGGOT & CO.,
GROUND FLOOR, 17–21 WILLIAM STREET,
New York, February 10, 1910.

GENTLEMEN: The present contract of the New York Cotton Exchange is a menace to legitimate trade, as it permits many different grades certificated cotton delivered on contract of 100 bales.

If each 100 bales certificated cotton (which is one contract) was required all to be of one grade, spots and futures would maintain proper relations to each other. Spinners can not afford to buy future contracts on the New York Cotton Exchange and ask for delivery of the cotton, because they want their cotton to all be of one grade to suit their particular need. Some spinners probably would use another grade, but none of them can possibly use many different grades at the same time.

Wheat has about twenty different grades; still only three grades of wheat are tenderable on contract, and a miller buying a contract of wheat invariably gets one grade, viz, No. 2 red winter, No. 2 hard winter, and No. 1 northern spring, all first-class milling wheat. Not so in cotton; a spinner buying a contract on the New York Exchange must accept whatever is tendered him, usually several grades in the same contract. Therefore, the present contract on the New York Cotton Exchange is a menace to legitimate trade interest and in all fairness and justice should be changed, so that spinners can specify and buy such grades as suits their requirements.

In my opinion only those grades of cotton most commonly used, middling strict and good middling, should be tenderable on contract.

Yours, very truly, H. L. SCALES.

HOUSE COMMITTEE ON AGRICULTURE,
Washington, D. C.

Mr. MARSH. I am very glad that that letter has come in here, and I am very glad that you brought the matter up. It gives me an opportunity for bringing out more clearly even than I have before brought out the character of the New York Cotton Exchange. The New York Cotton Exchange, Mr. Chairman, is an association of cotton merchants who have made the by-laws and rules which govern their trading with each other in the light of what they have to do as merchants distributing the cotton crop. The New York Cotton Exchange has not a contract for spinners. It has not a contract for spinners because it is not an association of spinners; it is an association of merchants. The business of the exchange is the business of men who have to take all kinds of cotton as the producer sells it; who have to carry that cotton as they get it, containing all kinds of cotton, and gradually work out this lot for this spinner and that lot for another spinner, until they finally get it distributed. I said a moment ago that when we reach a period of uneasiness with regard to price the merchant is the man who is the target for all the arrows that are shot. On the one side the producer shoots at him and on the other side the consumer shoots at him. Mr. Chairman, one of the reasons for the criticism which has been current for the last two or three years with regard to the New York Cotton Exchange is that certain spinners desire to shove aside the merchant, to get in back of him, and use that contract, the contract which the merchant devised for his own use, for a purpose for which it was not intended and for which it can not be used without destroying the body of merchants who use it.

The CHAIRMAN. Will it interrupt you if I ask you a question?

Mr. MARSH. No; not at all.

The CHAIRMAN. You said this contract is not made for spinners?

Mr. MARSH. Yes, sir.

The CHAIRMAN. Do not the spinners use a great proportion of the cotton that is consumed in the United States?

Mr. MARSH. They use it all, sir.

The CHAIRMAN. Then if you have a contract which is not made for spinners and under which, according to this letter, spinners can not afford to buy future contracts on the New York Cotton Exchange, how are you able to handle 80 per cent of the cotton crop?

Mr. MARSH. Mr. Chairman, spinners use all the cotton that is produced in the United States. No one spinner uses all the kinds of cotton that are produced in the United States. It is the business of the cotton merchants to acquire the cotton in bulk as it is sold in the South, and then separate it out into these various characters and qualities and distribute it to the spinners who need each character

and each quality. That is the business of the merchants. That is where the merchant makes his profit.

The CHAIRMAN. And that is what the members of your exchange do?

Mr. MARSH. That is what the members of our exchange do.

The CHAIRMAN. Is this gentleman correct in saying that spinners can not afford to buy future contracts on the New York market?

Mr. MARSH. Spinners can not afford, unless they are willing to undertake to be at once spinners and merchants, to enter into contracts on the New York Cotton Exchange for their immediate account.

The CHAIRMAN. Then if spinners can not go to New York for their cotton, I am still a little at a loss to know how the merchants in New York can furnish them the cotton.

Mr. MARSH. I do not think I understand the question, Mr. Chairman.

The CHAIRMAN. You have stated your substantial agreement with the observation of this writer that spinners can not afford to buy future contracts in the New York market, and you have qualified it by saying that they could not do it unless they undertook to exercise some of the functions of the merchant.

Mr. MARSH. Yes.

The CHAIRMAN. That being the case, and inasmuch as I assume they do not intend to exercise the functions of a merchant, how can it still be claimed that the New York merchants furnish the American spinners with their cotton?

Mr. MARSH. Mr. Chairman, it is a matter of fact that they do. It is not a claim that they do; they do.

The CHAIRMAN. But if the spinners can not buy it there, how can the merchants furnish it?

Mr. MARSH. Well, I do not catch the drift of the question. Is the chairman quite clear as to what the merchant does—how the merchant conducts his business in spot cotton?

The CHAIRMAN. I understood you to say that the New York merchants on the cotton exchange distribute 80 per cent of the cotton of the country.

Mr. MARSH. Yes.

The CHAIRMAN. On the face of it that statement would seem to imply that the spinners out through the country make contracts with the New York merchants whereby they secure cotton for the use of their mills.

Mr. MARSH. They make contracts with the members of the New York Cotton Exchange.

The CHAIRMAN. That is what I mean, that they make contracts with the members of the New York Cotton Exchange by which they secure their supplies; and yet the statement is made that they can not afford to buy a contract for the future delivery of cotton on the New York Cotton Exchange, because they do not know what they are going to get if that cotton should be delivered.

Mr. MARSH. Mr. Chairman, let me put a parallel case. Just as the spinner can not afford, unless he is willing to exercise some of the functions of the merchant, to take up cotton on the New York Cotton Exchange, so he can not afford, unless he is willing to exercise some of the functions of the merchant, to buy cotton of the cotton producer.

The CHAIRMAN. Then where, as a matter of fact, does the spinner get his cotton?

Mr. MARSH. He gets it from the merchant.

The CHAIRMAN. What merchant? Where?

Mr. MARSH. From the merchant who has the cotton, all through the South and all through Europe, and even as far away as Japan.

On this point, Mr. Chairman—and here is a very good opportunity to bring it in—let me call your attention to the fact that there is a good deal of juggling with words in connection with this matter.

Mr. BURLESON. Before Mr. Marsh gets away from that branch of the matter, bearing right on the same phase of it, I would like to ask him one question, because it would save going back to it.

The CHAIRMAN. I do not think he is getting away from it. I would like to have him make his statement.

Mr. BURLESON. Very well.

Mr. MARSH. Continuing what I started to say, Mr. Chairman, in discussions of this matter by persons who do not understand it, a great deal of stress is laid upon what is called the "New York stock of cotton," and the figures are used, for the New York stock of cotton, of the stock of cotton actually in warehouses in the port of New York. Mr. Chairman, those two terms are not synonymous terms. The New York stock of cotton is all the cotton in the world, wherever it may be, against which contracts have been sold to buyers in New York. In this present day and generation, with railroad facilities and steamship facilities what they are, there may be a portion of the New York stock of cotton in Liverpool or Bremen or in Savannah or in Austin, Tex., just as truly a part of the New York stock as though it were in Hoboken or Brooklyn.

The CHAIRMAN. That is very clear.

Mr. MARSH. Now, if you will permit me to go on a moment: You ask how it is that the spinner can get his cotton—each spinner the kind of cotton that he needs and desires—if the cotton which is delivered on contracts in New York is not of that kind. My answer to that, Mr. Chairman, is that he buys it of the merchant who has his share of the New York stock—of the true New York stock, not the port of New York stock, but the true New York stock—scattered from one end of the South to the other.

The CHAIRMAN. Yes; I understand your answer. Then, as a matter of fact, we know that the cotton which the mills in South Carolina use, for example, is probably gathered from that immediate vicinity. It never has been shipped to New York.

Mr. MARSH. How is that, sir?

The CHAIRMAN. I say, the cotton which the spinners use in South Carolina has never been shipped to New York.

Mr. MARSH. At times it has.

The CHAIRMAN. As a rule, though——

Mr. MARSH. As a rule, yes.

The CHAIRMAN. As a rule, the spinners get their cotton from the nearest source of supply; and I would like to have you explain in just what way it can be claimed that the members of the New York Cotton Exchange handle that cotton.

Mr. MARSH. Well, sir, you have had before you already two members of the New York Cotton Exchange who do a very large amount of that southern mill business.

The CHAIRMAN. Their cases will illustrate the question I have in my mind very well. They made it clear to us that they bought cotton, actual cotton, either from the producer or from the small merchant, and they sold it to their customers. Their only use of the New York Exchange, so far as I drew from their testimony, was as a place for hedging. They did not claim that the money of members of the New York Exchange was used by them in buying this cotton; and it therefore left the question in my mind as to how the New York cotton merchants could claim to have handled it. Is it through the hedging operation that you think they get this claim?

Mr. MARSH. No, sir; I have no reference to the hedging operation when I make the statement that members of the New York Cotton Exchange handle 80 per cent of the cotton crop of the United States. I mean exactly and precisely what I say. The two members of the New York Cotton Exchange who have appeared before this committee, who are merchants in the Carolinas and who make a business of buying cotton where it is offered to them for sale and of selling it to spinners as spinners need it in such quantities and of such characters as the individual spinners need, are doing their part toward the making up of this 80 per cent of which I speak.

The CHAIRMAN. May I ask a question in relation to your own business, in order to get a little light upon the matter?

Mr. MARSH. Yes.

The CHAIRMAN. You are a cotton merchant?

Mr. MARSH. Yes.

The CHAIRMAN. Do you sell cotton to spinners in the same sense that Mr. Cone does?

Mr. MARSH. I am at present fulfilling the subsidiary character. I am a broker.

The CHAIRMAN. That is, you are buying and selling on orders from other persons?

Mr. MARSH. Yes.

The CHAIRMAN. To what extent are all the members of your exchange engaged in that way? Can you give any idea at all how many of them actually sell cotton to spinners just as Mr. Cone does?

Mr. MARSH. I do not think, sir, that I can give you a figure. I do not want to dodge the question or give the impression that I am dodging the question. Certainly a majority of them; but whether the percentage would be 60 per cent or 70 per cent I really could not say.

The CHAIRMAN. You think you are safe in saying a majority?

Mr. MARSH. I think I am perfectly safe in saying a majority.

The CHAIRMAN. Yes.

Mr. MARSH. But I have no positive figures in my mind.

The CHAIRMAN. I believe the laws of New York have prohibited, or tried to prohibit, the institution known as the "bucket shop?"

Mr. MARSH. They have, sir.

The CHAIRMAN. Can you explain briefly to the committee the difference between a bucket shop and a cotton exchange or any other exchange?

Mr. MARSH. Well, the fundamental difference between the bucket shop, claiming to deal in cotton, and the cotton exchange is that in the bucket shop there is no contract entered into, whereas every transaction on the New York Cotton Exchange or any other cotton exchange is an enforceable and legal contract.

The CHAIRMAN. Are there any contracts made on the New York Cotton Exchange in which the total amount to be gained or lost is determined by agreement beforehand and within a fixed period of time?

Mr. MARSH. Such a contract would lead to the instant expulsion of any member who made it.

Mr. SIMS. What about a stop-loss order; would that be the same?

Mr. MARSH. A stop-loss order?

Mr. SIMS. Yes.

Mr. MARSH. No, sir.

Mr. SIMS. When a gentleman buys 100 bales of cotton, of course the assumption of the contract is that it is for absolute delivery; but he accompanies that with an order, what you call a "stop-loss" order, that if the price goes down so much you shall sell him out; is not that an indication to you, when he buys that cotton in that way, that he does not intend to take delivery unless it goes up?

Mr. MARSH. It is not such evidence.

Mr. SIMS. What is it evidence of, an actual transaction or a speculative transaction?

Mr. MARSH. It is evidence of the entering into a contract.

Mr. SIMS. What is the fact that there is a stop-loss order evidence of; that his intention is to speculate in the contract, in the fluctuations before the day of delivery arrives?

Mr. MARSH. I find it hard to say, Mr. Chairman, what my interpretation of an order of that kind is. I do not interpret it.

The CHAIRMAN. Will you explain just what you mean by a stop-loss order? In what way does it differ from a contract whereby the amount to be gained or lost can be determined in advance?

Mr. MARSH. Why, it differs from it in this respect, Mr. Chairman. I have already said that there are speculative contracts entered into on the New York Cotton Exchange. A person who makes a contract, let us say of a speculative character, may make up his mind that the amount of money which he is willing to lose in that operation is limited to a certain amount, as I may buy a piece of real estate expecting that it will advance in value, and if I find that it does not advance and that the interest on it is eating me up and I find that I can get out of it with a loss of 5 per cent or 10 per cent, I limit my loss to that extent and I get out of it. But, Mr. Chairman, an essential feature of the contract entered into on the New York Cotton Exchange is that a man's whole fortune, no matter what the order is which he puts in there, is behind that contract.

The CHAIRMAN. Suppose that I should write you an order to buy cotton for me and should send my check for $500 to protect the trade, and should say to you in that letter that if cotton falls to such a point that the $500 would be required to cover the difference between the price at which I buy and the price then prevailing, you shall sell—to put it plainly, I would give you instructions to the effect that I was willing to lose the $500 but I did not want to lose any more. Would you be authorized under the rules of your exchange to execute that kind of an order?

Mr. MARSH. You can not give me that kind of an order, sir. You can not give me an order in which you limit your loss to $500 or any other sum. You can give me an order of this kind; you can give me an order to buy 100 bales of cotton for you and when the loss on the

cotton which I have bought for your account has reached the sum of $500, to sell it out. But that is not the same thing, Mr. Chairman.

The CHAIRMAN. I am trying to get at the difference.

Mr. MARSH. The difference is this, and this is one of the points in which the difference between a bucket shop and the cotton exchange most clearly appears. Suppose you give me an order to buy 100 bales of cotton for you, and when the loss is $500 to sell it out; and when the loss is $500 I try to sell it out, but instead of selling it out with a loss of $500, I sell it out with a loss of $800; you have got to pay that $800.

The CHAIRMAN. Then really the difference between a bucket shop dealing in cotton and the cotton exchange is that in operating upon the exchange a man may lose his whole fortune?

Mr. MARSH. Exactly.

The CHAIRMAN. While in operating in a bucket shop he loses only the margin that he puts up?

Mr. MARSH. I have never operated in a bucket shop and I have not the slightest idea what they do there, but I say that a man's whole fortune is behind the obligations he enters into upon the New York Cotton Exchange. The contract is a contract as valid as any other contract in law, and any loss arising from it the man is liable for, in so far as he has any property to pay it.

Mr. SIMS. You have announced the proposition—I do not go as far as you do, because I do not know as much about it—that a man who gives an order for cotton that he does not want or sells what he does not have—in other words, of which he does not expect to make delivery—is a fraud and a cheat, but when a man gives an order to buy or sell cotton, and then gives a contrary order, a stop-loss order, as it is called, is not that evidence from the beginning that that man is a fraud and a cheat, or, in other words, that he is using your cotton exchange, not to get or sell cotton, but to deal in speculative features of contract, and why do you not refuse that kind of business when the stop-loss order comes with the original order until you inquire into whether he intends to——

Mr. MARSH. As I understood your previous questions and statements, Mr. Sims, on this point, you supposed the case of a man who fraudulently——

Mr. SIMS. You called it "fraudulently." I did not.

Mr. MARSH. Well, I think you have taken up my word "fraudulently."

Mr. SIMS. Only as a quotation.

Mr. MARSH. Well, "fraudulently" with quotation marks about it, then, sir. You have supposed the case where a man fraudulently, in the face of an express statement that he is entering into a valid contract for the delivery or the receipt of cotton, without advising and confessing to his agent what his real intentions are, instructs that agent to enter into this contract for his account, you have supposed, I say, a case of that kind, giving an order with a stop-loss attachment to it, and asked me if I do not think that is evidence of intended failure to fulfill the terms of the contract. Now, Mr. Sims, in our business, as I suppose in every business, the assumption is that men are honest; that they mean to do what they contract to do or what they instruct their agents to contract for them to do, and we certainly have no system of calling for affidavits. We do not ask a

man to swear, when he gives us an order, that his intentions are so and so. In fact, I suspect that if we did call for affidavits on every order we receive the only result would be greatly to increase the amount of perjury in the United States, because a man whose character is so contemptible that he will not recognize the legal and moral obligations resting upon him in view of a plain statement made to him is contemptible enough to perjure himself.

Mr. SIMS. Mr. Marsh, in other words, do you intend for this committee and the House of Representatives to believe that in the case of all purchases or sales made on the New York Cotton Exchange by those who make them—I mean by members of the exchange, brokers or whatever they are—they all at the time honestly believe that all this cotton which is bought is expected to be received, and all that is sold is expected to be delivered, and that if any operator, any person buying and selling, does not so intend, he himself is equal in moral turpitude to a perjurer? And, if that be so, how much more important it is for us, if possible, to pass a law that will protect your honorable body from the impositions of cheats and perjurers and felons.

Mr. MARSH (laughing). Mr. Chairman, it goes without saying—I certainly do not need to say to gentlemen who are as familiar with business affairs as the members of this committee—that the essential thing in making a contract upon the New York Cotton Exchange is to recognize that it is a contract, that it is legally and morally a contract, and that it carries with it all the responsibilities of a contract. From the earliest days when contracts have been entered into, men who have entered into them have passed them on from one to another. In passing them on there is no moral obligation upon them except to make sure that the persons to whom they pass them on will fulfill them, and it makes no difference whether a contract is passed on from one moral and legal contracting party to one more or to two more or to twenty more, provided that through the entire length of that line each new contracting party takes upon himself the full legal and moral obligations of the preceding contracting party. Now, when I talk about fraudulent intentions I do not mean to say, and it would be absurd if I were to make the contention, and you would know that it is absurd if I were to make the contention, in fact it would be in absolute contradiction to the whole hedging business if I did make the contention, that it is the purpose of each of the contracting parties to every contract entered into on the New York Cotton Exchange themselves and in their own persons to deliver and to receive the actual cotton which is the subject of the contract. I say it would be absurd to contend that that is the case. You would have no hedging if that was the case. But it is the intention, Mr. Chairman, when such a contract is entered into, that those contracting parties either themselves will fulfill the specific terms of the contract or that one of them or that both of them will provide new contracting parties who will fulfill the terms of the contract, still keeping it a valid contract with the moral and legal obligation behind it of those persons who have entered into it.

The CHAIRMAN. I do not want to monopolize this examination. I will only ask one or two more questions. In that case, in your judgment, if the practice of dealing in futures in cotton were eliminated, would it be possible for the New York Cotton Exchange to exist?

Mr. MARSH. If the practice of dealing in contracts for future delivery were eliminated, would it be possible for the New York Cotton Exchange to exist?

The CHAIRMAN. Yes.

Mr. MARSH. There would be no occasion for its existence.

The CHAIRMAN. Are you familiar with what is known as, and before this committee as, the Scott bill?

Mr. MARSH. I have read it, sir.

The CHAIRMAN. In your judgment if that bill were enacted into law and its provisions were enforced, would it eliminate the future-dealing operations on the New York Cotton Exchange to such an extent as to put it out of business?

Mr. MARSH. No, sir.

The CHAIRMAN. So that you think that the passage of that act would have no injurious effect, speaking from your own point of view, on the New York Cotton Exchange?

Mr. MARSH. It would have a disturbing effect until people saw the futility of it.

The CHAIRMAN. In what way would it have a disturbing effect?

Mr. MARSH. On this point let me say that necessarily in a large body of men like the members of the cotton exchange, who are performing a certain function, the majority of these men can not in the nature of the case have reasoned out the underlying principles and the underlying bases or foundations for that which they are doing. The cotton merchants as a class come into their business finding a certain state of things, certain practices in use, certain methods of conducting business in use, and without analyzing them or attempting fully to explain them they go ahead using those methods. The impression produced on the majority of men of that kind would, I think, be that the Scott bill amounted to something. It would take time for them to ascertain that it is a futile measure.

The CHAIRMAN. Would you mind explaining in what way it is futile?

Mr. MARSH. Well, I am not a lawyer, Mr. Scott. I am speaking as a layman and I am giving a mere merchant's judgment as to the permanent effects of the bill. I do not wish to qualify as an expert here or to be so regarded.

The CHAIRMAN. I only asked the question because you seemed to have quite a pronounced opinion that the bill would be futile, and I thought you must have some reason on which to base that opinion and that is what I was trying to get at.

Mr. MARSH. I think the bill is unconstitutional, to start with; I think it is discriminatory, in the second place; and I think its provisions, while undoubtedly intended to apply to the real facts of the business, go slantwise from them all the way through. The provisions of the bill do not match the conditions. Now, it is no use to legislate that people shall not do a certain thing with their legs when they customarily do it with their arms, and that is my judgment as to the provisions of the bill.

The CHAIRMAN. You have heard the testimony of the preceding witnesses to the effect that the present system of operation on the New York Cotton Exchange was injurious to the spinners. We have had one or two representatives of the spinners who have testified to that effect. Do you think they are right about it?

Mr. MARSH. I can only answer that, Mr. Scott, by saying that the spinners outside the United States now universally conduct their business with reference to hedge markets; that no spinner can finance his business unless he is known so to do. When at Atlanta some three years ago there was a kind of joint convention of spinners' associations and of farmers' associations and the question was raised as to abolishing trading in contracts for future delivery, the three sections of spinners refused to participate in that, although some members of each of the sections wished to do so; but the three sections, as I understand it, refused to participate in that on the ground that although there were features of the existing system which they did not like, they saw no substitute for it and did not think their business could be ultimately carried on without it.

The CHAIRMAN. You heard the extract which was read by Mr. Parker from the proceedings of the spinners' convention, in which they quite severely criticised the practice of the New York Exchange. Do you remember that extract?

Mr. MARSH. Well, now, Mr. Scott, there is a whole history to that.

The CHAIRMAN. I did not intend to ask for the whole history; I merely wished to inquire whether you thought that criticism was well founded, and whether you thought that the cotton exchange was likely to modify its practice in that respect.

Mr. MARSH. I do not think the New York Cotton Exchange is likely to give up being an association of cotton merchants. But, as I said, there is a whole history behind Mr. Parker's testimony. If the committee wish to have that history unfolded, I am only too willing to unfold it; but it seems to be rather immaterial and unnecessary to go into it.

The CHAIRMAN. In the absence of Mr. Parker, if anything you had in mind would be something which he would in fairness have a right to reply to, you had better not go into it.

Mr. MARSH. I think it would be, sir.

The CHAIRMAN. You spoke about a number of your members being outside of New York. Can you tell me about how many of your 425 members have places of business outside of New York?

Mr. MARSH. My impression is that about 200 of the members are actually resident in New York; but again I have no actual figures to go by.

The CHAIRMAN. Do any other members of the committee desire to ask any questions?

Mr. BEALL. I would like to ask him a question or two. The membership of your exchange is limited to 450?

Mr. MARSH. Yes.

Mr. BEALL. Are those seats on the exchange sold?

Mr. MARSH. Are they what?

Mr. BEALL. Are they sold and bought? Is the right to sit on that exchange bought and sold?

Mr. MARSH. Yes.

Mr. BEALL. What is the ordinary price, the usual price, for which seats are purchased?

Mr. MARSH. They have fluctuated in the past year from about $8,000 to $18,000 or $19,000.

Mr. BEALL. From $8,000 to $18,000 or $19,000. What caused that fluctuation?

Mr. Marsh. The law of supply and demand.

Mr. Beall. At certain periods of the year there has been great demand for the privilege of being a member of your cotton exchange, and at other periods not so great a demand?

Mr. Marsh. No; that is not, I should say, the fact. As we have no future system for dealing in seats on the New York Cotton Exchange, the fluctuations in the value of the seats on the exchange are very severe. If a member dies at a time when there happens to be no person desiring to become a member, and his widow wishes to realize the money without waiting, there being, as I say, no future system connected with the purchase and sale of seats, there may be a very severe break in the price. On the contrary, if some person desires to become a member and there is no seat available, he may have to bid the price up until he gets it.

Mr. Beall. What are the other conditions of membership in your cotton exchange?

Mr. Marsh. What do you mean by "other conditions," sir?

Mr. Beall. Suppose a man applies for membership in your cotton exchange, what are the requirements to entitle him to become a member?

Mr. Marsh. Nothing entitles anybody to become a member of the New York Cotton Exchange.

Mr. Beall. Well, how does he become a member, then?

Mr. Marsh. He applies to a committee of the exchange known as the "admissions committee," the committee on admissions. He makes a full statement under oath of his resources, of his business history, of whether he has or has not failed in business, of his intentions in becoming a member or seeking to become a member of the exchange; in short, he attempts to justify to the admissions committee by a sworn statement his desirability as a member.

Mr. Beall. Suppose he makes a statement that is satisfactory to this admissions committee, what then is the next step?

Mr. Marsh. The admissions committee submit his statement, with the statements of at least two members of the exchange, vouching for him and for the accuracy of what he has stated, to the board of managers of the exchange. The board of managers of the exchange then ballots upon his election, and if he receives a vote of a majority of the full board of managers he is elected.

Mr. Beall. After he becomes a member is he required to pay any dues, annual or otherwise?

Mr. Marsh. He is required to pay an entrance fee of $500, and each year the exchange estimates the expenses which it will have to undergo in the collection of statistics and the maintenance of its room, and so on, and levies an assessment upon the members sufficient to provide that sum.

Mr. Beall. What would be the usual amount of that annual charge?

Mr. Marsh. For several years past it has been $75.

Mr. Beall. A moment ago you stated that in your judgment—or I believe you stated it as a fact—80 per cent or more of the actual cotton produced in this country is handled by merchants who belong to the New York Cotton Exchange?

Mr. Marsh. I so said.

Mr. Beall. How much of that actual cotton was bought or sold on the New York Exchange?

Mr. MARSH. There is no earthly way to tell.

Mr. BEALL. Could you form a reasonable estimate as to the proportion of that 80 per cent that was actually bought on the New York Exchange, or sold?

Mr. MARSH. How can anyone form that? Two members of the New York Cotton Exchange, one from Greensboro, N. C., and one from Augusta, Ga., meet on the floor of the New York Cotton Exchange. The member from Augusta, Ga., says to the member from Greensboro, N. C., "What could you sell me 5,000 bales of strict middling cotton for?" The member from Greensboro, N. C., names a price which is satisfactory to the member from Augusta, Ga., and the member from Augusta, Ga., says, "All right; I will take it."

Mr. BEALL. You call that a sale on the New York Cotton Exchange?

Mr. MARSH. Certainly; if it took place. I am supposing that it took place.

Mr. BEALL. In your judgment, what per cent of this 80 per cent of the entire crop was sold under a contract of the New York Cotton Exchange?

Mr. MARSH. What kind of a contract?

Mr. BEALL. The ordinary contract, such as you have on the exchange?

Mr. MARSH. We have at least three ordinary contracts there, sir.

Mr. BEALL. I would be glad to have in the record a statement as to the kinds of contracts that you have on the New York Cotton Exchange.

Mr. MARSH. We have a contract covering or describing the terms of a sale of cotton in the port of New York, on the spot; we have a contract covering the terms of a sale of cotton to arrive in the port of New York, an f. o. b. contract; and we have a contract covering the terms of a basis delivery in some future month, commonly called a future contract.

Mr. BEALL. Take the contract that is ordinarily referred to as the New York Cotton Exchange contract; that gives to the seller the option of delivering certain grades of cotton?

Mr. MARSH. Yes.

Mr. BEALL. At so much on or off the middling price of cotton?

Mr. MARSH. Yes.

Mr. BEALL. Could you give an estimate of the proportion of this 80 per cent which was sold under that sort of contract on the New York Cotton Exchange?

Mr. MARSH. Every contract for the future delivery of cotton is that kind of contract, and every time a contract for the future delivery of cotton is sold against an equivalent amount of actual cotton anywhere it is a contract of that kind.

Mr. BEALL. Ordinarily, the members of your New York Cotton Exchange, in making sales of this actual cotton that they have, make them to spinners? Those sales are usually or frequently made to spinners, are they not?

Mr. MARSH. Frequently; yes, sir.

Mr. BEALL. And of the amount of cotton that is bought by spinners from the gentlemen who are members of your cotton exchange, can you form an idea, an estimate, as to the proportion of the amount that was bought under the ordinary New York Cotton Exchange

contract? Is it not a fact that the spinners do not buy their cotton under that sort of contract?

Mr. MARSH. Why, certainly; I had, I thought, been perfectly clear——

Mr. BEALL. It is a fact that they do or do not; which do you mean?

Mr. MARSH. It is certain that they do not buy it. I have stated as clearly as I could and as often as I thought the chairman of the committee would have patience to have me state it——

Mr. BEALL. Well, we have an abundance of patience.

Mr. MARSH (continuing). That the contract which is in current use between the merchant members of the New York Cotton Exchange is a contract intended for use between merchants and is not a contract intended for use between merchants and spinners.

Mr. BEALL. Why is it not intended as a contract for use between merchants and spinners?

Mr. MARSH. It is not intended for use between merchants and spinners for the reason that the merchant has to buy his cotton as it is produced. The merchant handling the cotton crop of the United States has to take it in bulk. You, sir, come from a cotton State, I believe.

Mr. BEALL. Yes.

Mr. MARSH. With all due respect for the acuteness of the cotton producers in your State, and I have the greatest respect for their acuteness, you know, sir, that every cotton producer in Texas makes his good cotton sell his poor cotton. You know as well as I do, sir, that if a farmer has produced 15 bales of cotton, 5 bales of it middling and 5 bales of it good middling and 2 bales of it low middling and 3 bales of it strict good ordinary, there is no merchant living that can get that farmer to sell him the 5 bales of middling and the 5 bales of good middling and leave the farmer with the 2 bales of low middling and the 3 bales of strict good ordinary. You know as well as I do, sir, that every farmer in Texas makes the cotton merchant take all the cotton he has got.

Mr. BEALL. No, I beg your pardon there; I do not know that. On the contrary, I know that in my section of Texas the ordinary farmer ordinarily sells his cotton as it is gathered, at the price that he can get at that time. The first cotton that he gathers is usually the best.

Mr. MARSH. Yes.

Mr. BEALL. That cotton ordinarily is disposed of before the lower grade of cotton is gathered, and instead of selling it all to the merchant at one time, he sells it at various times, and consequently, under that system of selling, the good cotton does not sell the bad.

Mr. MARSH. Well, I have had pretty extensive experience in buying actual cotton in the State of Texas. I am not at the moment engaged in that business, but I have been engaged in that business, and I have had pretty extensive experience with it, and I have known in my experience of having to buy 20,000 bales of cotton in order to fill a sale of 2,000 bales.

Mr. BEALL. But that purchase of 20,000 bales was not from a farmer?

Mr. MARSH. It was lists of cotton from up country, some of it farmers' lists and some of it country merchants' lists; but the fact of it was that in order to fill a sale of 2,000 bales of even-running

cotton such as a spinner would buy and had bought, the merchant had to take on 20,000 bales, 18,000 bales of which he had not sold to spinners.

The future contract in New York is a contract designed to provide in all kinds of seasons, high-grade seasons and low-grade seasons, for the exigencies of the business of the merchant who has to do that very thing which I have described.

Mr. BEALL. You take McFadden & Co., who buy cotton in Texas very largely; are they members of the New York Cotton Exchange?

Mr. MARSH. Several members of the firm are.

Mr. BEALL. In this 80 per cent that you say is bought and sold on the New York Cotton Exchange——

Mr. MARSH. I did not say that, sir.

Mr. BEALL. You did not say that?

Mr. MARSH. No, sir; I said bought and sold by the members of the New York Cotton Exchange.

Mr. BEALL. Taking the thousands of bales of cotton that the McFaddens, through their agents, scattered all through the South, buy, that amount is included in this estimate of 80 per cent?.

Mr. MARSH. Certainly.

Mr. BEALL. Because down in the South McFadden Brothers, who are members of the New York Cotton Exchange, buy cotton from the farmers and from the merchants for the purpose of selling that cotton to the spinners, and they do sell it to the spinners. That quantity of cotton purchased under those conditions by them is included in the estimate of 80 per cent?

Mr. MARSH. Certainly.

Mr. BEALL. And so the cotton purchased by Mr. Neville and the other operators who conduct their business through the South, the actual cotton that is bought in the South that is never carried to New York, the cotton that is bought not by reason of their membership in the New York Cotton Exchange, bought by these gentlemen, is included in this 80 per cent?

Mr. MARSH. I should answer to that question yes were it not for the inclusion in the question of a provision or proviso which I do not assent to. You say "this cotton bought by these gentlemen not by reason of their membership in the New York Cotton Exchange." If I were to answer that question yes, accepting the implications of that proviso, I should be giving a misleading answer.

Mr. BEALL. Well, it is not necessary to be a member of the New York Cotton Exchange to buy the actual cotton down in the South.

Mr. MARSH. It is necessary to be a member of the New York Cotton Exchange to buy any such quantity of cotton as Messrs. McFadden & Bro. buy.

Mr. BEALL. Why?

Mr. MARSH. Because there is no cotton firm in existence which could get the capital or the credit necessary for the conduct of the cotton business on that scale without the use of hedging.

Mr. BEALL. The cotton crop of this year in the United States is estimated to be about 10,000,000 bales?

Mr. MARSH. Yes.

Mr. BEALL. Assuming it has a value of $80 a bale, that would be about $800,000,000?

Mr. MARSH. It would.

Mr. BEALL. Now, you say that it is necessary, in order to handle that product of the value of $800,000,000, to have an exchange based upon the system upon which the New York Cotton Exchange is conducted. Every pound of that cotton when manufactured into cloth is increased in value, is it not?

Mr. MARSH. It is.

Mr. BEALL. About what per cent; from 300 to 400 per cent?

Mr. MARSH. Oh, the most varying percentages.

Mr. BEALL. Assuming that it is 300 per cent——

Mr. MARSH. That is too high.

Mr. BEALL. Two hundred per cent?

Mr. MARSH. I should say approximately 200 per cent, on the average.

Mr. BEALL. Then the product of that $800,000,000 worth of cotton is worth double that amount when manufactured?

Mr. MARSH. It is.

Mr. BEALL. Or $1,600,000,000?

Mr. MARSH. It is.

Mr. BEALL. It is necessary to have a cotton exchange conducted as it is now in order to handle $800,000,000 worth of cotton?

Mr. MARSH. Yes.

Mr. BEALL. But it is not necessary to have any kind of cotton exchange in order to have the product of that cotton handled, which is of a value of $1,600,000,000?

Mr. MARSH. That is a portentous statement on the face of it, but the situation is really a great deal more simple than that.

Mr. BEALL. I wish you would simplify it.

Mr. MARSH. The burden of carrying the goods manufactured out of the cotton is distributed through such an enormous number of small merchants, no one of whom is likely to be badly hurt provided he knows the consumptive requirements of his immediate clientele. And now, sir, you come to the real answer to a question which you have asked one or two other witnesses. The question has been, Who bore the loss involved in the fluctuations of the cotton market?

Mr. BEALL. Will you let me ask you one or two questions leading up to that?

Mr. MARSH. Yes.

Mr. BEALL. There is no question but what the farmer bears all the burden involved in the cultivation and in the gathering of the crop, is there?

Mr. MARSH. He certainly bears it all.

Mr. BEALL. After it is gathered it is necessary that it be ginned?

Mr. MARSH. Yes.

Mr. BEALL. Who bears that expense?

Mr. MARSH. It is a part of the expense of production.

Mr. BEALL. The farmer bears it?

Mr. MARSH. Yes.

Mr. BEALL. It is necessary to put bagging and ties on it. The burden of that falls upon the farmer?

Mr. MARSH. Yes.

Mr. BEALL. Now, you are a cotton merchant. I understand from statements made by gentlemen here before us that they are content with a very small profit upon a bale of cotton.

Mr. MARSH. I think that is true.

Mr. BEALL. Let us assume that that profit is a dollar a bale.

Mr. MARSH. That is a very exaggerated estimate. I can give you exact figures if you want them.

Mr. BEALL. In order to have even figures in asking these questions, I will just assume that, for that purpose.

Mr. MARSH. I should be more comfortable in my mind if you would not assume something that is not true.

Mr. BEALL. Then state what you think would be the average profit?

Mr. MARSH. I saw not long ago the actual figures of the profit per bale of a successful smaller Texas firm some years ago, but conditions are less favorable for the cotton merchant to-day than they were then, if anything. The largest per bale profit made in any one of the four years covered by the figures was 47 cents.

Mr. BEALL. Forty-seven cents. You are willing to call it 50 cents, I suppose, for convenience?

Mr. MARSH. No, sir; not one cent above 47. [Laughter.]

Mr. BEALL. It is like the laws of the Medes and Persians; your estimates can not be varied. Well, we will call it 47 cents. A cotton merchant has a customer who is a spinner, who will give him $75.47 for a bale of cotton. Forty-seven cents you think would be a reasonable profit. If there were no other charges the merchant could afford to pay the farmer $75 for that bale of cotton, make his profit, and sell it to the spinner for $75.47; but there are certain other elements of expense that the merchant is cognizant of; for instance transportation charges from the point of purchase to the mill of the spinner. Suppose, for the purpose of this illustration, that item is $4 a bale. How does that affect the price that the merchant will pay to the farmer for the cotton, assuming still that he wants to make his profit of 47 cents?

Mr. MARSH. He naturally does not pay the transportation charge out of his own pocket.

Mr. BEALL. That reduces the price to the farmer to the extent of $4?

Mr. MARSH. Yes.

Mr. BEALL. Then there is a compress charge. I do not know whether I am giving the correct estimate or not, but assume that that is 50 cents a bale. I do not know what it is.

Mr. MARSH. Yes, I think that is correct in Texas.

Mr. BEALL. Assuming that the merchant purchases the cotton from the farmer; he would deduct that 50 cents, would he not?

Mr. MARSH. He would not, directly, under the rules, under the laws of——

Mr. BEALL. Practically that would be the effect of it?

Mr. MARSH. The transportation charge in Texas includes that 50 cents. The railroad has to pay it.

Mr. BEALL. It includes the amount that the merchant would have to pay, that 50 cents. Then there is the element of risk from fire.

Mr. MARSH. Yes.

Mr. BEALL. There must be insurance?

Mr. MARSH. Yes.

Mr. BEALL. The merchant knows that when he buys a crop, and he takes that into consideration and reduces the price of the bale of cotton to the farmer by what he has to expend for that insurance?

Mr. MARSH. Yes.

Mr. BEALL. So far the farmer has had to bear all the loss; that is, in an illustration where the merchant knows that he can get $75.47

for that bale of cotton, which is about 15 cents a pound, I take it. Now, suppose that instead of the merchant having that definite information he is confronted with an uncertainty as to whether he will get 15 cents a pound for that cotton or 14 cents; in making his calculation as to what he will give the farmer, will not the merchant take into consideration the probable fluctuations in the value of that cotton and compel the farmer to bear that burden as well?

Mr. MARSH. Now, you are assuming that the merchant has no way to protect himself from those fluctuations. That is the assumption?

Mr. BEALL. I am assuming that the merchant is buying a bale of cotton from the farmer, depending upon the future price of cotton determining the amount that he will receive for it.

Mr. MARSH. If the merchant is using the market for future contracts, for hedging purposes, he does not deduct the possible loss of 2 or 3 or 4 cents a pound that might arise from the decline in cotton. He gives the farmer the market of the moment when he buys it.

Mr. BEALL. Coming to the proposition you started to explain a while ago. Somewhere along the line there is somebody who is taking into consideration the probable decline in the price, or probable fluctuation in the price, of that cotton. Whether it is the merchant or the speculator, or whoever it may be, somebody is taking that fluctuation into consideration, somewhere along the line. Who is it?

Mr. MARSH. Somewhere along the line that you have described?

Mr. BEALL. Yes; between the farmer and the spinner, between the producer and the ultimate consumer of that raw cotton; somebody in fixing the price of that cotton is taking into consideration the probable fluctuation in price between the time it leaves the hands of the farmer and the time it gets into the hands of the spinner.

Mr. MARSH. May I ask before answering your question whom you mean by the "ultimate consumer of the cotton?"

Mr. BEALL. The spinner; the ultimate consumer of the raw cotton.

Mr. MARSH. I may be somewhat impertinent, but I do not desire to be so. Does the spinner end the line?

Mr. BEALL. So far as the raw cotton is concerned, I think he does.

Mr. MARSH. But so far as fixing the value of the raw cotton is concerned, does he end the line?

Mr. BEALL. Yes; put it that way.

Mr. MARSH. Then I must dissent from you, sir, because the manufacturer of the cotton is in exactly the same position that the cotton merchant is in. The price of cotton is of no consequence to the manufacturer of cotton. There are only two parties in the world to whom the price of cotton is of importance.

The CHAIRMAN. Pardon me just one moment; may I ask a question right there that I think will bring your answer directly to the point involved?

Mr. BEALL. Yes.

The CHAIRMAN. It has been brought out in the testimony heretofore that the merchant hedges in order to protect himself from loss.

Mr. MARSH. Yes.

The CHAIRMAN. That the spinner hedges in order to protect himself from loss.

Mr. MARSH. Yes.

The CHAIRMAN. And the question Mr. Beall, and I think all of us, would like to have answered is, Who bears that risk finally? It is

eliminated from the merchant and is eliminated from the spinner; and who does carry it?

Mr. MARSH. In an advancing market—that is, with a short supply of cotton—that ultimate risk is finally devolved upon the innumerable consumers of cotton all over the world.

Mr. HAWLEY. Of manufacturers?

Mr. MARSH. Not the manufacturer; he does not bear it. It gets away beyond the manufacturer.

Mr. HAWLEY. I say the consumers of manufactured articles.

Mr. MARSH. Oh, yes; I beg your pardon; I did not understand you. It goes thousands of miles beyond the manufacturer. It goes away back in Manchuria and up into India.

The CHAIRMAN. Your answer, then, is that the ultimate consumer of the product is the man who bears that risk?

Mr. MARSH. He is the man who takes that risk when the supply of cotton is short and when the market is advancing. When the supply of cotton is more than the demand, unquestionably the producer takes the risk.

Mr. BEALL. On a declining market, then, the burden of this risk falls upon the producer?

Mr. MARSH. Unquestionably.

Mr. BEALL. With an advancing market it falls upon the consumer?

Mr. MARSH. Yes.

Mr. BEALL. In the one case the people of the South bear the burden?

Mr. MARSH. Unquestionably.

Mr. BEALL. And in the other case the people of the world bear the burden?

Mr. MARSH. Unquestionably.

Mr. BEALL. It is a burden either way?

Mr. MARSH. Unquestionably. Almighty God made it so.

Mr. BEALL. Almighty God aided by anybody else? [Laughter.]

Mr. MARSH. Almighty God not aided by anybody; certainly.

Mr. BEALL. Leaving that for the present, I believe you stated that all the contracts upon the New York Cotton Exchange contemplate delivery?

Mr. MARSH. They not only contemplate it; they require it.

Mr. BEALL. They require it. You are a broker of that exchange?

Mr. MARSH. I am.

Mr. BEALL. Can you give the committee an estimate of the number of bales of cotton that, as a broker, you have sold on that exchange during the past sixty days—the number of bales that you sold on the exchange for delivery in December, if that is one of the months of delivery, and I believe it is?

Mr. MARSH. I have not those figures in my head.

Mr. BEALL. Could you form an estimate?

Mr. MARSH. I am afraid I could not, because I am buying and selling all day long.

Mr. BEALL. Regardless of the number, what per cent of that number that you sold were ever actually delivered? Could you form an estimate as to that?

Mr. MARSH. How do you mean, actually delivered?

Mr. BEALL. You sold upon the New York Cotton Exchange for delivery in December, say——

Mr. MARSH. Yes.

Mr. BEALL (continuing). A small or a large number of bales of cotton, as the case may be?

Mr. MARSH. Yes.

Mr. BEALL. Can you form an idea as to the percentage of that number of bales of cotton that was actually delivered under the sales that you made?

Mr. MARSH. A large part of my sales were made for January delivery, March delivery, May delivery——

Mr. BEALL. Well, say January?

Mr. MARSH (continuing). July delivery; naturally none of those have involved any delivery of cotton as yet, except a portion, probably, of the January sales.

Mr. BEALL. Can you form an estimate as to the probable percentage of deliveries actually made on the January sales made by you?

Mr. MARSH. This is February. Deliveries were made on all the sales of January.

Mr. BEALL. The delivery of actual cotton was made upon all the sales of January?

Mr. MARSH. I should say that that was a reasonable answer to give your question. I perhaps ought to explain this answer, as it is a fundamental point in the whole controversy. I have already said to the committee that when contracts are formed between members of the exchange, those members are constantly making new contracts with other members of the exchange to take their places under the original contract. That results in chains of contract obligations which arise under the business of the exchange. When the specific month for which the contracts have been entered into comes around, if one of my customers has sold to a member, whom we will call A, 100 bales of January cotton, and A has sold it to B, and B has sold it to C, and C has sold it to D, and D has sold it to E, I say when the current month, as we call it, comes around, a notice to the effect that there are 100 bales of cotton in a warehouse in New York ready for delivery is given by the first seller to the first buyer and by him is passed to the second buyer and by him to the third buyer, and in that way 100 bales of cotton may be delivered in the fulfillment of 10,000 bales of contracts.

The CHAIRMAN. Would not a more strictly accurate answer to Mr. Beall's question be, that you had delivered the contracts which you sold?

Mr. MARSH. No, sir.

The CHAIRMAN. That you had bought the contracts for the delivery of cotton in January? It is probably impossible for you to tell whether any actual cotton has been delivered under those contracts, but you can truthfully say that the contracts which you sold have been delivered to the parties who bought them. Is that not what you really mean?

Mr. MARSH. I mean, sir, that a valid and legal evidence of the ownership of 100 bales of cotton has been delivered by the first seller to the first buyer.

The CHAIRMAN. Exactly.

Mr. MARSH. And by him to the second buyer, and there is no break in the chain. The delivery of actual cotton has taken place.

Mr. LEVER. Not in each instance, however.

Mr. MARSH. Why, certainly.

Mr. LEVER. I thought the delivery took place on a day certain, at the end of the month.

Mr. MARSH. It takes place on any delivery day during the month.

Mr. LEVER. How many delivery days do you have?

Mr. MARSH. There are four in each week of the month.

Mr. HEFLIN. I did not catch Mr. Marsh's answer. I understand you to say that in every contract made on the exchange the actual cotton is delivered?

Mr. MARSH. I described, sir, the process by which these contracts are fulfilled when the current month, the month called for in the contract, comes around.

Mr. HEFLIN. Is it not a fact that numbers of contracts are made where neither party ever sees the cotton, and the difference is settled in money?

Mr. MARSH. I do not see how such contracts could be made under the rules of the New York Cotton Exchange.

Mr. HEFLIN. I am just asking you if that ever does occur. Where a man will sell 100 bales of cotton and the man who buys that 100 bales never sees the 100 bales, and the difference, at a certain time, is settled in money, and no cotton ever passes.

Mr. MARSH. Well, I have been the legal owner of large quantities of cotton which I never saw. I suppose that Messrs. McFadden & Bro. in the course of every season are the legal owners of a million bales of cotton that they never saw.

Mr. HEFLIN. And they never ask to see it, do they?

Mr. MARSH. And they never ask to see it.

Mr. HEFLIN. The differences are often settled in money, are they not? That is true, is it not?

Mr. MARSH. I do not know what you mean by differences which are settled in money.

Mr. HEFLIN. The speculative feature of it; that they buy and sell cotton—the members of the exchange—when no actual cotton is delivered. Can I not buy 100 bales of cotton to-day on the New York exchange, and if the price goes up get my money—the difference between now and a certain date—without taking any cotton?

Mr. MARSH. Mr. Heflin, you can not buy 100 bales of cotton on the New York Cotton Exchange, but you can give an order to a member of the New York Cotton Exchange to buy a contract for the delivery to him for your account of 100 bales of cotton.

Mr. HEFLIN. Well, whatever you call it. Now, can I not have money paid to me if the price of cotton goes up, without ever taking any cotton or seeing any cotton? Can I not close out my deal with that member of the exchange without having the cotton delivered to me or seeing a pound of cotton?

Mr. MARSH. If, after having given that member of the exchange an order to contract for 100 bales of cotton for your account, you subsequently give him an order to sell to somebody else a contract for 100 bales of cotton for your account, and there is a profit in the transaction, you can certainly get that profit.

Mr. HEFLIN. Without any actual cotton ever having passed?

Mr. MARSH. With the certainty that those two contracts will ultimately be settled in the market by the passage of actual cotton.

Mr. HEFLIN. Of actual cotton. One other question while I am on that. How many bales of cotton do you suppose are contracted for on that exchange in a season, in a year, by the members of the New York Cotton Exchange?

Mr. MARSH. The New York Cotton Exchange made the most trenuous efforts for a long period to keep an account of the actual ransactions which took place there. It was found that the errors hich crept into the statements were so numerous, that so many ransactions were erroneously reported in the rush of business and many escaped being reported in the rush of business, that the tatements arrived at at the end of each day were entirely mislead-ig—misleading to the members, who alone had a legitimate interest those statistics.

Mr. HEFLIN. I am told, Mr. Chairman, that the New Orleans xchange keeps books, and you can tell, by the month, how many ales have been dealt in on that exchange every month.

Mr. MARSH. I am not informed as to that, Mr. Chairman, but I m certain that in a business of the character of this, accurate statis-ics are a physical impossibility.

Mr. SIMS. More so than in stock transactions?

Mr. MARSH. Very much more so.

Mr. MENDELBAUM. I would like to ask just one question in connec-ion with what Mr. Heflin has asked. You were asked as to the firm f McFadden & Bro. holding memberships on the New York Cotton Exchange. Is it, or not, a fact that eight of the members of that irm hold memberships in the New York Cotton Exchange?

Mr. MARSH. I have not the exact figures in my mind, but I think hat is so.

Mr. MENDELBAUM. Another question I would like to ask you. When you stated that McFadden & Bro. sometimes held a million ales of cotton, did you have in view contracts, or did you have in iew cotton which they had in this country and, in fact, all over the vorld—the actual stuff?

Mr. MARSH. I had in mind actual cotton.

Mr. MENDELBAUM. That is all.

Mr. LEVER. Mr. Beall asked you if you could furnish the number f bales of cotton sold by you during the month of January. I do ot know that we ought to ask Mr. Marsh to do that, because it nay be going too far into his personal business, but if he can furnish t, and if he does not mind doing it, I believe it will illuminate this uestion somewhat.

Mr. MARSH. Mr. Chairman, I am competing with other members f the New York Cotton Exchange, and I do not care to give the etails of my personal business.

Mr. LEVER. Very well, I will not press that. Just one other sug-estion. I think it will help the committee in coming to a conclusion n this very important matter if we can have Mr. Marsh or some other nember bring here a copy of the rules of the New York Cotton Exchange.

Mr. NEVILLE. We have that here.

Mr. BEALL. With the different forms of contract.

Mr. LEVER. Did you ask Mr. Marsh if he could show us in just what way the delivery of 100 bales of cotton liquidated other sales?

Mr. NEVILLE. The late Mr. Lovering had a full set of transfer otices actually used in the liquidation of contracts in a current nonth, which I gave him, and which ought to be in his office.

(At 5 o'clock p. m. the committee adjourned until Monday, February 14, 1910, at 1 o'clock p. m.)

COMMITTEE ON AGRICULTURE,
Monday, February 14, 1910.

The committee met at 1 o'clock p. m., Hon. Charles F. Scott (chairman) presiding.

TESTIMONY OF MR. ARTHUR R. MARSH—Continued.

The CHAIRMAN. Will Mr. Marsh please resume the stand? Mr. Brooks, who is the spokesman for the Farmers' Union, is compelled to leave the room this afternoon and has asked me if he might ask Mr. Marsh two or three questions.

Mr. BROOKS. I understood you to say last Friday that the New York stock of cotton consisted of many kinds; is that correct?

Mr. MARSH. Yes, sir.

Mr. BROOKS. Does it ever happen that the stock of New York cotton may exceed the entire year's product?

Mr. MARSH. That can not possibly happen.

Mr. BROOKS. There is never any more stock than there is cotton available?

Mr. MARSH. No, sir.

Mr. BROOKS. And the membership of the exchange consists of 425 members and handles 80 per cent of the cotton in the United States?

Mr. MARSH. Yes, sir.

Mr. BROOKS. How is it you can get those statistics and yet do not know how much is handled on the exchange?

Mr. MARSH. The answer to that, Mr. Chairman, is very simple. Hedging transactions which members of the exchange may or do enter upon in the process of distributing this stock of cotton are their own private affair; it is no business of anybody except the member himself what hedges he uses, how many he uses, where he uses them; in other words, what contractual obligations he enters into in the course of distributing the cotton which he acquires for distribution.

Mr. BROOKS. Mr. Chairman, then I would like to know if you consider the functions of the exchange private or public in their nature?

Mr. MARSH. Unquestionably private.

Mr. BROOKS. Well, you also stated, if I mistake not, that the contract furnished spinners by brokers on the exchange was not suitable for spinners and therefore they had to be also merchants as well as spinners if they had their cotton delivered on the exchange?

Mr. MARSH. I believe I made that statement; yes, sir.

Mr. BROOKS. Well, then, if these cotton merchants that constitute the exchange do not perform fully the function of merchant, what function do they perform?

Mr. MARSH. I hardly know how to answer that question because of the supposition which is involved in it. It seems to me to appear on the face of things that inasmuch as these merchants do distribute 80 per cent of the cotton crop of the United States they do fully perform their functions as merchants.

Mr. BROOKS. Well, they perform that function not on the exchange, but separate and apart from it; is that the way?

Mr. MARSH. How do you mean "not on the exchange?"

Mr. BROOKS. I mean by having the cotton delivered on the contract that is sold across the cotton pit on the floor of the exchange.

Mr. MARSH. They perform their function in part through transactions they enter into in the market which we call the exchange, but their functions are also performed through contracts entered into with persons who are not members of the exchange, such as spinners.

Mr. BROOKS. Well, the exchange itself is merely a means by which these cotton merchants raise, I might say, and transfer the crop from the grower to the spinner?

Mr. MARSH. The cotton exchange is not a means; the cotton exchange is a place.

Mr. BROOKS. Well, it is used as a means.

Mr. MARSH. Not in any sense of the word "means" that I am acquainted with.

Mr. BROOKS. Then you do not consider that the exchange is in any sense of the word a means by which these cotton merchants can carry on the functions of cotton merchants?

Mr. MARSH. I do not.

Mr. BROOKS. Well, on another point, is it possible, or can a member of the exchange bucket an order that he may receive to buy or sell?

Mr. MARSH. It is always possible for a man to be a scoundrel if he is willing to run the risk of being found out.

Mr. BROOKS. Now, is it easy to find out if those things were to happen?

Mr. MARSH. It is not easy in the sense that every man's books, that the books of every member of the exchange, are constantly displayed to every other member.

Mr. BROOKS. If it was found out what would be the treatment accorded him as a member?

Mr. MARSH. Under the by-laws of the exchange he would unquestionably be expelled.

Mr. BROOKS. The practices years ago that gave rise to the terms of "put" and "call" have been abolished, if they ever existed, have they not?

Mr. MARSH. They never existed under the rules of the exchange, and they were specifically prohibited as detrimental to the members of the exchange, and to enter into such an arrangement would now be cause for expulsion and has been for many years.

Mr. BROOKS. Well, would what is called "matched sales" be sufficient cause for the same action?

Mr. MARSH. I do not know what the gentleman means by "matched sales." That is a term very loosely used.

Mr. BROOKS. Well, has it any real meaning? You know the term is used, and, perhaps, you could give us a correct definition of it, if there is such a thing.

Mr. MARSH. As I understand the matter, Mr. Chairman, a matched sale, in the strict sense of the term, would be a transaction in which a single member of the exchange went to one broker and gave him an order to sell a certain amount of cotton at a given price and simultaneously gave an order to another broker to buy the same quantity of cotton at the same price; that would be a matched sale, and a transaction of that kind would be prohibited by the rules of the New York Cotton Exchange and would lead to severe discipline of any member who was caught indulging in it.

Mr. BROOKS. What purpose could a man have in doing that if he were to do it?

Mr. MARSH. I have never done it, I have never seen it done, and I am not enough of a psychologist to state what purpose he might have.

Mr. BROOKS. I didn't know but what there might be some advantage accruing. Would it have any visible effect on the quotations that day or anything of that sort?

Mr. MARSH. I should not think it would, but I have no way of knowing, because it is a practice that does not exist on the New York Cotton Exchange.

Mr. BROOKS. Well, there is another term that is sometimes used, and I would like to know if you think it is ever practiced—that is, "washed sales."

Mr. MARSH. Again, Mr. Chairman, I am unable to answer the question, because I am even more in doubt as to what a "washed sale" is than I was as to the meaning of the phrase "matched sales."

Mr. BROOKS. Well, without trying to define it myself, I will leave that to others to discuss.

The CHAIRMAN. I think Mr. Marsh gave a very clear definition of "matched sales" as they are understood by some people; perhaps he would be willing to attempt a definition of "washed sales" in the same way.

Mr. MARSH. My mind is very vague on the subject of "washed sales." My impression has been that "washed sales" and "matched sales" were the same thing.

Mr. BROOKS. What is the difference, then, between those and "ringing out?"

Mr. MARSH. It is difficult to give a nontechnical answer as to what "ringing out" is. "Ringing out" is practiced where, let us say, three or more members find they have a contract or contracts open between the three or more, beginning with one, going through the round, and coming back again to the starter. For instance, if A sells B 100 May, and B sells to C 100 May, and C sells A 100 May, those three persons, A, B, and C, have three contracts, which, as we say, "ring out," and the process of "ringing out" is simply eliminating the intermediary man; it is bringing A and C together.

Mr. BROOKS. That is to avoid the useless transfer of stocks when they can be balanced without?

Mr. MARSH. We do not deal in stocks.

Mr. BROOKS. Contracts, I mean.

Mr. MARSH. Yes.

Mr. LEVER. Before Mr. Marsh leaves the "washed sales" proposition, I would like to ask Mr. Marsh this, by way of illustration. As I understand, a "washed sale" happens something like this and for this reason: You, a broker, a member of the exchange, buy from me a thousand bales of cotton at 14.50 for July; you carry that for a week or ten days and you begin to get a little shaky of my ability to put up margins if I should happen to be called on for them; you go to one of your friends on the exchange and sell it, my thousand bales of cotton, for 14.30, or 20 points below the market, in order to relieve yourself of any doubt that you may have as to me; is that what we know as a "washed sale?"

Mr. MARSH. I do not know that I have ever heard a transaction of that kind characterized as a washed sale.

Mr. LEVER. It is not a washed sale?

Mr. MARSH. I have never heard it so characterized.

Mr. LEVER. Have any such transactions ever happened, to your knowledge?

Mr. MARSH. That I can not answer. I should suppose that in the natural course of business it might happen, but I have never had such a transaction myself. In the entire experience of many years I have never known of that transaction personally.

Mr. BEALL. I understood that the term "matched sale" carries with it a certain impression on your mind.

Mr. MARSH. On my mind; yes.

Mr. BEALL. And is an expression that is more or less generally used?

Mr. MARSH. It is used by the newspapers; yes.

Mr. BEALL. Where did that expression get that particular meaning, if it is not practiced in the New York Cotton Exchange or any other cotton exchange within your knowledge? How did the term originate and where, if you know?

Mr. MARSH. I think that historical question would be a good one at which to set some young candidate for the degree of doctor of philosophy. It is purely a historical question, and to answer it would mean the digging up of newspaper reports for a good many years back and finally running down the exact moment when, historically, that phrase began to be used and then ascertain how it came to be used. I can not answer the question, because I have not made that investigation.

Mr. BEALL. Then the statement would have been sufficient that you did not know.

Mr. MARSH. I suppose a statement that I don't know would have been sufficient, yes.

Mr. BEALL. I asked it because I supposed you knew a good deal about the philosophy of the cotton trade, if it has any philosophy, as well as the history of the cotton trade. However, it has some definite meaning.

Mr. MARSH. I should say it has no definite meaning.

Mr. BEALL. It has some indefinite meaning, then?

Mr. MARSH. It has an indefinite and vague meaning.

Mr. BEALL. But it is supposed to describe the transaction that you outlined a few moments ago, but you do not know where it got that meaning?

Mr. MARSH. I have no idea.

Mr. BROOKS. If I am a member of the exchanges; that is, of New York, Liverpool, and New Orleans, and I sell a contract for 10,000 bales, does that add to the stock of all three of those exchanges by reason of that contract?

Mr. MARSH. If you have 10,000 bales of actual cotton and sell a hedge of 10,000 bales against it in New York, do you add to the stock? Is that the question?

Mr. BROOKS. No, sir; add to the stock of the cotton on the exchange.

Mr. MARSH. You add to the stock of cotton on the exchange in which you sell the hedge.

Mr. BROOKS. Well, here is the idea that I want to bring out: Suppose I haven't got any cotton at all and yet I sell a contract for

1,000 bales that I will deliver, does that add stock to the exchange in which I sell it?

Mr. MARSH. No, sir, obviously not; you are then a speculator.

Mr. BROOKS. You mean you distinguish? How can you tell what the stock of the exchange is if it consists of all the cotton against which contracts are sold?

Mr. MARSH. You can not tell except by a process of approximation.

Mr. BROOKS. Then there are no statistics by which you can get at the actual differences?

Mr. MARSH. There are none.

Mr. BROOKS. Then how is it ever possible to tell anything accurately about the stock of cotton in any exchange?

Mr. MARSH. We are in the same position with regard to that, Mr. Chairman, as we are with regard to the size of the cotton crop; no one can ever tell the size of the cotton crop until it is a matter of ancient history; no one can tell the volume of transactions until they are ancient history, and then only in case all persons who take part in them were to combine together and give their figures.

Mr. BROOKS. Only one more question. What do you give as a reason for the exchanges ceasing to report the volume of business as they once did?

Mr. MARSH. Because it was found that the reports were exceedingly inaccurate; in the rush of business many transactions were overlooked; members entered into them and failed to report them, many transactions were inaccurately taken down or reported, and I must say, must give one further point; it was found that certain members were greatly exaggerating the volume of their own business for eclat, or some such reason as that.

The CHAIRMAN. Mr. Marsh, I think it has been stated at various times that the reason the exchanges discontinued this practice was because they felt that the great disparity between the number of bales of cotton involved in the transaction on the exchange and the number of bales actually grown in the country was so great it would attract unfavorable attention to the methods of the exchange. Do you think that had anything to do with it?

Mr. MARSH. I don't think it had the slightest thing to do with it. I think the exchange has always aimed at extreme accuracy.

The CHAIRMAN. Has the exchange any officer that might be regarded as statistician?

Mr. MARSH. Yes, sir.

The CHAIRMAN. Does he make a periodical report?

Mr. MARSH. On what?

The CHAIRMAN. Well, I was going to ask if he did make such a report what it included?

Mr. MARSH. Reports are being made, sir; are coming from the statistical department of the exchange practically every minute of every hour of every business day.

The CHAIRMAN. What does he report upon?

Mr. MARSH. He reports upon the stocks of cotton in all parts of the world, upon the stocks of cotton at a certain number of interior points in the South; he reports upon the daily receipts of cotton at the ports of the United States and the daily receipts at these towns; he reports upon the sales of cotton on the spot in New York, the sales of cotton on the spot at Liverpool; he reports upon the receipts

at Bombay of India cotton, the receipts at Alexandria of Egyptian cotton, the exports of India cotton from Bombay to Europe, the exports from Bombay to China and Japan, the exports from Bombay to the United States—a multiplicity of reports.

The CHAIRMAN. In other words, he reports on everything that might have a tendency to influence the price of cotton, to give information to the members of the exchange which would influence them in their judgment as to the stock on hand or the stock available.

Mr. MARSH. Yes, sir.

The CHAIRMAN. In this connection, while it of course does not bear directly on the inquiry now before the committee, if you care to express it, I would like to ask your opinion on the value of the statistical reports published by the Department of Agriculture; are they regarded by members of your exchange as of much value?

Mr. MARSH. I think they are regarded as of very great value. I had occasion to express myself, some months ago, on that point, and the statement that I made then, which was published in some of the newspapers, was to the effect that though the Department of Agriculture, in the nature of the case, can not be absolutely accurate, yet its estimate of the conditions and of the outturn of the cotton crop is substantially borne out by the event; in other words, when the Department of Agriculture tells us, during the summer, that the crop is not doing well, and finally, early in December, estimates the crop at a moderate figure, we can be sure that crop will turn out a moderate crop; we have never had a case, so far as I remember, where the Department of Agriculture has said that we had a very small crop when we had a very large crop, or said that we had a very large crop when we had a small crop.

The CHAIRMAN. Have the estimates of the department had a tendency to render unnecessary the maintenance of a numerous corps of investigators on the part of dealers in cotton, to any extent, or do dealers in cotton rely upon their private division just as much as they ever did? Do they maintain just as elaborate a system of gathering information now as they formally did?

Mr. MARSH. I should say that the system of gathering information was, perhaps, more elaborate to-day than it has ever been; that is, on the part of members. One can not be long in a great market, as in the cotton market, without discovering that these reports, obtained by members, no matter with what care they may obtain them, contain very great discrepancies. They give us an indication, a suggestion, as to the course of events, but they lack that authoritative character which the reports of the Department of Agriculture have. In other words, I should say that the maintenance of these sources of private information is, perhaps, as much for the purpose of anticipating and forecasting the more authoritative statements of the Department of Agriculture as it is for the immediate information which is obtained.

The CHAIRMAN. I do not care to pursue the question any further now. I am very much obliged for the information.

Mr. MANDELBAUM. Mr. Marsh, you have stated that the exchange is not the means to transfer the cotton from the producer to the spinner. Is it or is it not a necessity to perform that function properly?

Mr. Marsh. It is undoubtedly a necessity to perform that function. When I said it was not a means I was using the word "means" in the exact sense of the word. A means is an instrument, it is something employed as an instrument. Now, the instrumentalities by which cotton is distributed are the contracts which members of the exchange enter into with each other, with cotton producers, with interior merchants, and with spinners. Those are the means, the instrumentalities; but the cotton exchange, though not in the strict sense of the word a means, is none the less, in my opinion, an absolute necessity.

Mr. Brooks. Mr. Chairman, just one question. You think it merely a coincidence, then, that the cessation of publishing the volume of business on the exchanges followed the agitation in Congress of the Hatch bill?

Mr. Marsh. I think it merely a coincidence. But, perhaps, I might say this, that every agitation leads the cotton exchange to examine more scrupulously every detail of its activities; every agitation leads members of the exchange to ask themselves whether this or that is provable, is so reliable and accurate that there can not be any question about it.

Mr. Lever. Mr. Marsh, there is not any more hubbub on the cotton exchange than there is on the New York Stock Exchange, is there?

Mr. Marsh. There is not more what?

Mr. Lever. More hubbub, excitement?

Mr. Marsh. I have never been on the floor of the New York Stock Exchange in my life.

Mr. Lever. I understood you to say that you do not keep any statistics of transactions on the cotton exchange?

Mr. Marsh. Yes.

Mr. Lever. I call your attention to the fact that on the New York Stock Exchange the amount of sales is kept.

Mr. Marsh. But there is, Mr. Lever, a very important difference between the transactions; there are means of checking the transactions on the New York Stock Exchange because every share of stock which is traded in is actually delivered the next morning.

Mr. Lever. That is a very important difference. And on the New York Cotton Exchange contracts are not delivered?

Mr. Marsh. On the New York Cotton Exchange a contract for May delivery, entered into to-day, is not deliverable until May.

Mr. Lever. But you would have a record of the transaction; you could have a record of the transaction?

Mr. Marsh. Yes; possibly a record of the transaction might be devised which would be accurate, but the difficulties, the mechanical difficulties are very great.

Mr. Lever. You do record, however, the fact of the transaction taking place during the day; that is, the number of transactions?

Mr. Marsh. No, sir; we record simply prices.

Mr. Lever. Let me ask you to explain this. It is from one of these New York papers, the Commercial, of Friday, February 11; "Prices on the New York Cotton Exchange, between first and second calls"—I understand your first call takes place at 10 a. m.—and I find that May is down at 15.04 and 15.03, and so on. Now, that represented a transaction, a sale or purchase, did it?

Mr. MARSH. There was a sale and a purchase at that price. However, there may have been a dozen or 20 transactions.

Mr. LEVER. Do you keep any record of that whatever?

Mr. MARSH. We do not.

Mr. LEVER. I notice in the Journal of Commerce, I think it is, taking May, for instance, that between the first and second calls there were 110 transactions. What time elapses between your calls?

Mr. MARSH. The first call is at 10 o'clock and the second at quarter of 12.

Mr. LEVER. So that during a period of one hour and three quarters you had at least 110 transactions, and that does not include July and the other active months?

Mr. MARSH. Yes.

Mr. LEVER. Now, do you have any knowledge as to the average amount or number of bales carried in a sale?

Mr. MARSH. There is absolutely no way of arriving at that.

Mr. LEVER. So that on May, for an hour and three-quarters, you transacted 11,000 bales of cotton?

Mr. MARSH. At least.

Mr. LEVER. At least; isn't it your judgment that that represented a great deal more than that, as a matter of fact?

Mr. MARSH. Unquestionably.

Mr. LEVER. What, in your judgment, would be about a fair estimate of the number of bales transacted for May during that period?

Mr. MARSH. I have absolutely no means of estimating it.

Mr. LEVER. No means at all?

Mr. MARSH. It would be impossible for any one who was not on the floor to estimate the volume of those transactions.

Mr. LEVER. Yes, it would be impossible for any one not on the floor; but you are on the floor?

Mr. MARSH. I was not at the time mentioned; I was here in Washington.

Mr. LEVER. That is very true, but you have had so much experience on the floor and been there so much you ought to have a fairly accurate idea of the bigness or littleness of the transactions that took place as represented by these different prices here?

Mr. MARSH. I have no idea; why, I have not heard whether the market was active or quiet on that day.

Mr. LEVER. Suppose it had been an active market, what would you think about that?

Mr. MARSH. Well, I have no way of answering that question, Mr. Lever.

Mr. LEVER. I notice that this paper estimates the sales for "yesterday," this paper being dated February 11, "were 350,000 bales;" would you call that an active or inactive market?

Mr. MARSH. I should call that a fairly normal market.

Mr. LEVER. If it had been a million bales you would have called it an active market?

Mr. MARSH. Very active.

Mr. LEVER. Then your sales for May, between the first and second calls, would very probably have averaged from 500 or 1,000 bales to the transaction?

Mr. MARSH. Well, I have no way of answering that, Mr. Lever.

Mr. LEVER. I would like to ask if, in your judgment, your standard of an active market would be a million bales a day?

Mr. MARSH. Why, I should call a day, when I thought a million bales had changed hands, an active day; I can not say that I have any standard for an active day.

Mr. LEVER. You would call that an active day?

Mr. MARSH. It certainly would be an active day.

Mr. LEVER. Three hundred and fifty thousand bales, you think, would be a rather normal day?

Mr. MARSH. Yes, sir.

Mr. LEVER. You have two or three large commercial papers in New York, one the Journal of Commerce, and the Wall Street Journal, and the other the New York Commercial. Are these papers in good standing? Or don't you care to answer that?

Mr. MARSH. I shouldn't be able to answer it, Mr. Lever.

Mr. LEVER. Would you think that a paper that had in it Hubbard Brothers & Co.'s advertisement would be a fairly decent kind of a paper?

Mr. MARSH. You are getting in rather deep for me, Mr. Lever.

Mr. LEVER. You would think that, though?

Mr. MARSH. That would be my assumption, yes.

Mr. LEVER. So that if it was a fact that Hubbard Brothers advertised in the New York Commercial you would think that that would give this paper some standing before the committee, wouldn't you, as to accuracy and correctness of its figures?

Mr. MARSH. I do not think, Mr. Lever, that any secondhand or thirdhand statement, whether in a newspaper, no matter how reputable, or not, ought to have any weight with this committee whatever.

Mr. HOWELL. Are there any newspaper representatives on the floor of the exchange during this time?

Mr. MARSH. There are.

Mr. LEVER. I understand this newspaper has a representative on the exchange?

Mr. MARSH. It has.

Mr. LEVER. And he would be there to get news?

Mr. MARSH. Yes.

Mr. LEVER. You are not willing to say that his reports of the transactions on the exchange are inaccurate, are you?

Mr. MARSH. I am; exceedingly.

Mr. LEVER. Exceedingly inaccurate?

Mr. MARSH. Yes, sir; but that doesn't mean to say that he does not sometimes hit the truth; I have never yet known a reporter who did not occasionally get the facts.

Mr. LEVER. You wouldn't be willing, however, to say that his reports are colored against the exchange?

Mr. MARSH. I should say not.

Mr. LEVER. And when he tells us that the sales for a day were 350,000 bales, you would say that was a normal market and that you gentlemen did not have much excitement that day?

Mr. MARSH. I should.

Mr. LEVER. And if the transactions were a million bales, you would say that was a pretty good day for you?

Mr. MARSH. Yes.

Mr. LEVER. That market was pretty active?

Mr. MARSH. Yes.

Mr. LEVER. So that, Mr. Marsh, if you had 100 normal days in a year you would transact on the exchange 105,000,000 bales during that year, wouldn't you?

Mr. MARSH. How is that?

Mr. LEVER. If you had 100 normal days on your exchange the amount of cotton handled through the exchange would amount, in the course of a year, to 105,000,000 bales of cotton, wouldn't it? 300 working days I should say?

Mr. MARSH. If we had 300 normal days—that is a mere matter of arithmetic, just multiplication.

Mr. LEVER. How many holidays do you usually have during the course of a year?

Mr. MARSH. Well, I do not carry the calendar in my head; seven or eight I should think.

Mr. LEVER. So that if you have 340, or about 340 working days on the exchange——

Mr. MARSH. No, we do not work on Sunday.

Mr. LEVER. Less the Sundays, 320 days.

The CHAIRMAN. About 300.

Mr. LEVER. Say 300.

The CHAIRMAN. That would be 13 holidays aside from the Sundays.

Mr. MARSH. And Saturday is a half a day with us.

Mr. LEVER. Mr. Marsh, would you tell us again, if you have already told us, a little something, briefly, of the origin of the exchange?

Mr. MARSH. The first exchange that was established in the form of a formally-organized exchange was the Liverpool Cotton Exchange; that was established in its incipient form about 1868, if my recollection is correct, and it took its final shape in 1870, the shape which it has maintained down to the present time. The New York Cotton Exchange was organized by the cotton merchants of New York in 1871.

Mr. LEVER. What, if any, special reason do you give for the organization of the Liverpool Exchange—what brought it about?

Mr. MARSH. It was brought about by the obvious desirability of uniform contractual terms. A very large cotton business was being transacted in Liverpool; cotton was being imported by a variety of people; it was being bought from the importers by what are called spinners' brokers, it was being sold by these spinners' brokers, either for their own account or the account of the merchants, to spinners, and the very multiplicity of the transactions and the possibility of misconstruction of terms made it practically imperative that those merchants should form an exchange and should give uniformity to the rules under which they did business with each other.

Mr. LEVER. Now, will you tell us how the matter of dealing in futures had its origin?

Mr. MARSH. The matter of dealing in futures, so far as I can learn—the very origin of it is somewhat obscure—but so far as I can learn the dealings in futures arose first in connection with cargoes of cotton which were at sea coming either from the United States or from India; the importers of these cargoes of cotton found that persons in Liverpool, who were not importers, but who desired to trade in cotton, were willing to buy this cotton when it should arrive—that is to say, if a ship was

on its way from New Orleans to Liverpool with 10,000, or I had better say 2,000 bales of cotton for those days, on board, the importer of that cotton found that before the ship arrived in Liverpool it could be sold by him "to arrive," and inasmuch as the average length of a voyage was fairly calculable it was sold to be delivered when the ship arrived in the future. The uncertainty of a sea voyage, however, is the real explanation of the fact that in Liverpool the trading for future delivery is in what we call coupled months; in Liverpool the contract for future delivery is made not for a single month, as in this market, but for two months; for instance, January-February or May-June or July-August. Now, the reason for that was that a ship might be ninety days or she might be one hundred and ten days, and there was an element of uncertainty as to her arrival which made it necessary to give a longer chance to the seller of the cotton.

Mr. LEVER. And out of this speculation, as to the time and the fact of the arrival of each cargo of cotton, grew the system of trading in futures?

Mr. MARSH. So far as I can ascertain; yes.

Mr. LEVER. And out of that grew the New York Cotton Exchange?

Mr. MARSH. And out of that, as modified by the conditions in this country and the particular conditions in New York.

Mr. LEVER. Isn't it a fact that the New York Cotton Exchange grew out of the desire, the inherent desire of mankind to speculate?

Mr. MARSH. It is not; it is absolutely untrue that it did.

Mr. HUBBARD. Mr. Lever, I was not present at the organization of the exchange, which took place in 1870, but my business career extends from before the time of the filing of the articles of incorporation, and I shall be glad to answer that question when I appear on the stand, if you will make a note of it.

Mr. LEVER. I would like to ask you whether on one occasion you did not say, "And, curiously enough, it was out of this wild speculation of the time of the civil war that the entire modern method of handling the cotton business was evolved?"

Mr. MARSH. I should say that is correct; but that speculation took place in Liverpool.

Mr. LEVER. The New York Cotton Exchange did not grow out of that speculation?

Mr. MARSH. No; it did not.

Mr. LEVER. But the dealing in futures grew out of wild speculation?

Mr. MARSH. I should say so.

Mr. LEVER. So that the origin of dealing in futures does grow out of the desire of humankind to gamble?

Mr. MARSH. I should say that the way was blazed for a new economic function by speculators.

Mr. LEVER. Now, Mr. Marsh, I would like to ask you a question or two as to other points. I believe you said the other day that the New York Cotton Exchange, that is, the membership, handled 80 per cent of the cotton crop in the United States. Does it follow, therefore, that the price of cotton in the United States is made by the membership of the New York Cotton Exchange?

Mr. MARSH. No more than it follows, sir, that the price of dry goods is made by the dry goods merchants of New York.

Mr. LEVER. You handle 80 per cent of the business, and you are merchants?

Mr. MARSH. Mr. Lever, people are always coming to the New York Cotton Exchange with the idea that they can lead the horse to water and make him drink, but nobody has ever yet succeeded in doing it. The price of cotton is determined by what the consumers of dry goods will pay for those dry goods and by what the producers of cotton will sell the cotton for. I said on Friday that the cotton merchants are not interested in the price of cotton.

Mr. LEVER. I have been very much interested in your characterization of yourself and other members of the exchange as cotton merchants. You gentlemen are not in business for fun, of course, nor for philanthropy; we have always understood, at least I have, that a merchant was a gentleman who proceeded in his business on this kind of hypothesis: That he would buy goods as cheaply as possible and sell them as dearly as possible. Do you proceed upon that assumption?

Mr. MARSH. I certainly do not, Mr. Lever; I think that even a casual study of the great merchandising of the world will show that that is not the case; the tendency of the great merchandising of the world for many years has been to bring the merchant's compensation rather in the shape of a reasonable commission than in the shape of a profit derived from buying cheap and selling dear. Now, that process has gone so far in the cotton trade that every cotton merchant speaks of his merchant's profit as a commission. In figuring the price at which I, as a cotton merchant, will sell cotton to a spinner, I always figure my own merchant's profit as a commission, and that is the tendency of all the great merchandising.

Mr. LEVER. So you think, then, that the business of merchandising has changed since the days of Edmund Burke when, in his great speech at the trial of Warren Hastings, he said, "The merchant is the same the world over and gold is his God, the exchange his church, his desk his altar, his ledger his Bible, and he has faith in none but his banker?"

Mr. MARSH. There is no greater admirer of Edmund Burke than I am, but in economic questions he was a child and an Irish child at that.

Mr. LEVER. You don't agree to that? You said the other day that you had 425 active members of the New York Cotton Exchange; do you happen to know just what proportion of that membership engages in the handling of actual cotton?

Mr. MARSH. I think that question was asked me on Friday, and I said I could not give an accurate answer to it; that there were no figures available to me that would give an accurate answer; that I could simply say that I felt sure that a majority of them were engaged in what I called the primary merchandising function. I distinguished, if you will remember, between primary merchandising and those subsidiary merchandising functions which are performed by brokers. I should say that a majority of the members were so engaged, and I should think the proportion would run up to 60 or 70 per cent; I am not willing to put myself on record or to swear, however, that the number is at least 60 or at least 70 per cent.

Mr. LEVER. You wouldn't be willing to say that not more than a dozen of the members of the New York Cotton Exchange are really representatives of spot houses?

Mr. MARSH. I should be willing to say that over 200 are representatives of large spot houses; my impression is that over 300 are, but I am perfectly willing to take oath to the fact that over 200 are.

Mr. LEVER. Represented in the actual handling of cotton?
Mr. MARSH. Yes.
Mr. LEVER. What grade of cotton regulates the price of futures?
Mr. MARSH. No grade of cotton, sir.
Mr. LEVER. If a man went out in the field, however, to buy a bale of spot cotton, the grade would regulate the price of that spot cotton?
Mr. MARSH. No, sir.
Mr. LEVER. It would not?
Mr. MARSH. No, sir.
Mr. LEVER. You would give a man just as much for low middling as you would for strict middling?
Mr. MARSH. I did not say that.
Mr. LEVER. That is what I am driving at; can you answer it now in the light of that explanation?
Mr. MARSH. The price of any given grade of cotton is of course regulated by the demand and the supply of that grade.
Mr. LEVER. For instance, Mr. Marsh, May went up to 15.05, for futures, of course—15.05 for what? For strict middling, or low middling, or ordinary middling, stained, or what?
Mr. MARSH. For 100 bales of cotton which might consist of any or all of those grades?
Mr. LEVER. Which might consist of any or all of those grades? Explain what you mean by that.
Mr. MARSH. A contract on the New York Cotton Exchange is exactly like a contract which an interior merchant makes with the producer of cotton; as the interior merchant takes the producer's cotton as it runs, so the merchant on the New York Cotton Exchange takes cotton as it runs—takes it in gross. Now, cotton runs in gross from good ordinary up to fair, with certain grades also of tinged and stained cotton; the contract on the New York Cotton Exchange is devised to cover that range of grades, to reflect cotton as it is produced in gross.
Mr. LEVER. If I, as a farmer, should sell 100 bales of cotton—farmers sometimes do it, because they need the money at the time—and have an idea that the price in the fall was going up and should buy 100 bales on the New York Exchange, under your contract, even though I had sold my strict middling cotton, you would assume the right, under your contract, to deliver me any one of 23 grades of cotton?
Mr. MARSH. We should.
Mr. LEVER. Cotton that I could take home and sell to my local merchant, perhaps, and perhaps could not sell at all because it was not usable?
Mr. MARSH. I should not admit that, because if that cotton were sold to the local merchant he might sell it again on the New York Cotton Exchange.
Mr. LEVER. Suppose I was a spinner and wanted to spin?
Mr. MARSH. I said on Friday that the contract on the New York Cotton Exchange is a merchant's contract. It is not a spinner's contract.
Mr. LEVER. That is very true, that is one of the points we are trying to get at. Is it true that about eight-tenths of the spinners of this country use from low to good middling cotton?
Mr. MARSH. How many?

Mr. LEVER. About eight-tenths.

Mr. MARSH. I should think that the proportion could not be as large as that.

Mr. LEVER. Not quite eight-tenths? Well, seven-tenths, something like that?

Mr. MARSH. I am not willing to say seven-tenths, six-tenths, or five-tenths.

Mr. LEVER. Your largest customers, I should think, would be the spinners of the world?

Mr. MARSH. Our largest customers?

Mr. LEVER. Yes.

Mr. MARSH. Well, we have just as many customers who sell us cotton as we have customers who buy cotton from us.

Mr. LEVER. Who are your largest buyers if not the spinners of the world?

Mr. MARSH. They are our only buyers.

Mr. LEVER. Then as merchants catering to their trade, it seems to me you ought to make a contract that would please your only buyers.

Mr. MARSH. But we are always ready to sell the spinner what he wants.

Mr. LEVER. A spinner who buys a thousand bales of cotton under contract and asks for strict middling would have a right to get it?

Mr. MARSH. That I didn't say, Mr. Lever.

Mr. LEVER. Well, what did you say?

Mr. MARSH. I said that we as members of the New York Cotton Exchange are always ready to sell a spinner what he wants. If a spinner wants a thousand bales of strict middling cotton he has only to come to the members of the New York Cotton Exchange and he will get it. I will tell you what the trouble is with the spinners, and this has been the source of a very large part of this agitation, so far as the spinner is concerned. The cotton merchant, who is a member of the New York Cotton Exchange, is constantly exercising his judgment as to the relative value of the different grades of cotton throughout the United States from information which he has derived from his correspondents all over the South; he is making up his mind that there will be or will not be a relatively large supply of strict middling cotton, and when he finds that it is going to be a relatively small supply, he requires the spinner, when he makes the contract with him, to pay a premium for that grade of cotton which the merchant finds out is not to be largely supplied. The kick of the spinner is that he should not be charged that premium; what the spinner desires to force upon the New York Cotton Exchange is such a system that he can make a merchant's contract on the New York Cotton Exchange and then demand a spinner's contract in fulfillment of the merchant's contract.

Mr. LEVER. That is the contract to which Mr. Parker referred the other day; and in that connection I would like to say, Mr. Marsh, that Mr. Parker was here yesterday and was in my office. He told me to say to the committee and to you gentlemen that you should not hesitate to criticize his position freely, because he would be here at the call of the committee on Wednesday to answer back, as it were. Now, I understood you to say a moment ago that if the spinner wanted a thousand bales through the New York Cotton Exchange of strict middling cotton he could get it.

Mr. Marsh. He can.

Mr. Lever. So, then, there is no real necessity for this system of hedging, is there?

Mr. Marsh. On our part, sir?

Mr. Lever. Upon the part of the spinner?

Mr. Marsh. There is not; he can hedge any time he sees fit by going to the spot merchant and making a contract for the cotton he wants.

Mr. Lever. There is no necessity for his hedging on the exchange?

Mr. Marsh. I have said, Mr. Lever, that the whole system of hedging is a merchant's contract.

Mr. Lever. And that there is no necessity, as far as the spinner and those on the outside are concerned, to have this hedging go on at all?

Mr. Marsh. I can not say that there is no necessity. Of course, when I say that I assume that you realize and take into account that the reason why the spinner can do this is that the spot merchant can hedge; if the spot merchant can not hedge the spinner could not buy his cotton at any time he saw fit; so that in the last resort the spinner's hedge is absolutely dependent upon this hedging among merchants.

Mr. Lever. If a spinner desired a thousand bales of cotton from a spot dealer he could get strict middling if he wanted it?

Mr. Marsh. He could.

Mr. Lever. The spot man selling a thousand bales would hedge himself with a purchase of a thousand bales on the New York Cotton Exchange, in all probability?

Mr. Marsh. He would.

Mr. Lever. Now, then, if the spot merchant who has hedged desires strict middling from the New York Cotton Exchange, could he have that delivered to him under this contract?

Mr. Marsh. Certainly not, and he does not want it delivered to him.

Mr. Lever. He couldn't do it? You could deliver one of 23 grades; you could deliver 10 bales of one kind, 5 of another, 10 of another, and 50 of another?

Mr. Marsh. Certainly; he has bought in New York a contract for cotton in gross and he will get cotton in gross.

Mr. Lever. What is the difference on this particular point between the rules on your exchange and the rules on the New Orleans Exchange?

Mr. Marsh. I am not familiar with the rules of that exchange; I do not know of any difference.

Mr. Lever. Have you seen President Thompson's statement to this effect, "I believe that a law making effective the following principles would suffice: A law providing for a national standard of classification of the merchantable grades of cotton, upon which standard all arbitrations on contract deliveries shall be made, and further, prohibiting any contract under which unmerchantable and useless stuff can be delivered, and providing that all cotton delivered on contract shall be paid for by the receiver on the basis of the actual spot value of the several grades delivered on the market and at the time of delivery." Have you seen that statement?

Mr. Marsh. I have seen it.

Mr. Lever. Do you agree with his suggestion?

Mr. MARSH. Well, whenever a man says that we ought to do right I agree to it; the question, however, always arises, and the difficulty always comes in human affairs, of determining what is right. Now, I think that Mr. Thompson's statement is, in its general moral purposes, admirable; I fully agree with him; his ideas as to what is right I do not agree to in all their details.

Mr. LEVER. Let me ask you specifically as to this proposition, "Prohibiting any contract under which unmerchantable and useless stuff can be delivered," you agree to that?

Mr. MARSH. I think it is certainly expedient that no contract should be made on which unmerchantable and useless cotton should be delivered.

Mr. LEVER. Would you be willing to go so far as to say, "Prohibiting any contract under which unspinnable cotton could be delivered?"

Mr. MARSH. I think it inexpedient that a contract for general use should be made by members of an exchange on which unspinnable cotton should be delivered.

Mr. LEVER. Is it a fact that a great deal of the New York stock is unspinnable cotton?

Mr. MARSH. I have never heard of a bale of cotton in the stock of cotton in New York which was unspinnable; as a matter of fact the spinners have bought and spun all the cotton which has been in the stock of New York for many years past.

Mr. LEVER. Do you agree with the Commissioner of Corporations in this proposition: "One of the leading members of the New York Cotton Exchange said on this point, 'Contract cotton is cotton for which there is no other market at the moment; that is practically universal?'"

Mr. MARSH. I was the member who said that.

Mr. LEVER. So you agree to it?

Mr. MARSH. So I agree to that.

Mr. LEVER. But the New York Cotton Exchange is not willing to give to the spinner a contract which will permit him to call for such cotton as he desires?

Mr. MARSH. It is willing, but on this point, perhaps, after what you have said about Mr. Parker, I may explain the steps that were taken to give the spinner this contract. A committee of the American Manufacturers' Association, consisting of Mr. Parker, Captain Smythe, and a spinner by the name of Lowe, of Fitchburg, Mass., some two years ago, came to the New York Cotton Exchange, explaining that the spinners found that the contract which the merchant members of the Cotton Exchange were using was not adapted to their needs; they stated that they desired a contract which they could take up, as the expression is, if they wanted to, and which, as they put it, the average spinner could be able to use. This committee was met by a committee of the New York Cotton Exchange, of which Mr. Hubbard, Mr. Neville, and I were all members; we had a long discussion of the requirements of the spinners; we pointed out to this committee of spinners that the contract of the New York Cotton Exchange, as it is, is a merchant's contract, that it would be absolutely destructive to the business of these merchants, so far as these contracts are concerned, to make the changes which would make the contract a spinner's contract, but we proposed to establish a second contract to be traded in

upon the New York Cotton Exchange which should be exactly the contract which the spinners desired; we pointed out to the spinners that there would be times when this special contract, adapted to their needs, would still add a very much higher price than the regular merchant's contract; none the less they declared that contract was what they wanted and wished to have it tried. We accordingly drew up a contract exactly on the lines of the result of that conference, and we submitted this contract to the board of managers of the New York Cotton Exchange and the board of managers of the New York Cotton Exchange, according to my recollection, unanimously adopted it; in order that it should be put into final effect, however, it had to be adopted by a two-thirds majority of the members of the exchange, after having been posted a certain length of time for the consideration of the members.

While this proposition was posted on the bulletin board and while the members were discussing it and before the day of the vote had arrived, a member of our special committee happened to meet Captain Smythe on the train, and to his intense surprise Captain Smythe said, "Oh, well, we are not interested in it; do not care about it anyway." We heard from Mr. Parker that he was not interested in it, a complete change of front from the conferences which we had had with those gentlemen. Now, naturally, if those gentlemen, having marched up the hill, wanted to march down again, like the King of France, it could hardly be expected that the members of the New York Cotton Exchange would pursue the course which was being urged upon them, and the matter was referred back by the exchange to the board of managers, and that was equivalent to laying it on the table.

Mr. LEVER. Neither Mr. Parker nor Mr. Smythe spoke by authority of the committee they represented on this proposition.

Mr. MARSH. We had some difficulty in finding out whether they spoke by authority of the committee or did not, Mr. Lever.

Mr. LEVER. It is sufficient that you and yours were convinced that the contention of the spinners was correct?

Mr. MARSH. That is not an accurate way of putting it, Mr. Lever. Our committee was convinced that it was something which the spinners thought they wanted and we were convinced that it was something that we could try as an experiment without detriment to the business of the members of the exchange; we were not convinced that the spinners would like it after they got it; in fact, I personally did not believe they would like it after they got it because I was convinced by remarks that were made by these spinners that what the spinners really wanted was to get in back of the spot merchant and to make the Exchange adopt a form of contract which would enable the spinner to eliminate the spot merchant when he thought the spot merchant was charging him too much.

Mr. LEVER. Will you give us the benefit of your idea of the relationship between futures and spots in the effect that futures have on spots?

Mr. MARSH. I do not think they have any effect upon spots.

Mr. LEVER. As a matter of fact do not futures control spots entirely?

Mr. MARSH. I should think that was as unsound an economic proposition as you could frame.

Mr. LEVER. A local buyer, to illustrate it again, in Columbia, S. C., wishing to buy from a farmer one hundred bales of cotton, buys within the limits, thirty points on and fifty points off and does it on futures, off or on futures, and it seems to me that spot prices are largely controlled by future quotations?

Mr. MARSH. Mr. Lever, I was unwise enough, or unhappy enough, to use a certain illustration in talking to one of the representatives of the Bureau of Corporations. I got severely roasted for my illustration, but I will venture to use it again. I said that the thermometer no more determined the weather than the price of futures determines the value of spot cotton. The Bureau of Corporations changed my illustration a little, saying that a steam gauge on a boiler which did not register the exact pressure in the boiler was not very reliable. I will, however, use the steam gauge illustration which has been furnished by the Bureau of Corporations, and will say that to state that the price of futures regulates the price of spots, even though the spot transactions on the face of them are based upon the price of futures, is exactly the same as saying that what runs the engine is the steam gauge.

Mr. LEVER. Is there any relationship between these two?

Mr. MARSH. A very close relationship.

Mr. LEVER. What is it?

Mr. MARSH. The relationship is that the price of futures represents transactions in cotton, and that the market for cotton is determined in the minds of those who are buying and selling cotton by the transactions that have been made.

Mr. LEVER. I understand you, of course, to contend that the law of supply and demand governs the price of spot cotton entirely?

Mr. MARSH. And of futures also.

Mr. LEVER. And of futures also?

The CHAIRMAN. Pardon me for putting a question right there. Then why does it happen, as it did a few weeks ago, that the price of futures dropped to the extent of $14 or $15 a bale, while the price of spots remained practically the same?

Mr. MARSH. Mr. Chairman, the price of the spot cotton which those futures represented dropped. The real fact of the case, Mr. Chairman, is that the price of a certain portion of the cotton crop did not drop, but it certainly is true that the price of that large portion of the cotton crop which had already passed out of the hands of producers and which was sold under contracts to speculators in New York, cotton stored in Liverpool and in Bremen and in New York City and in Savannah and Memphis and all over the country, the price of that cotton dropped.

The CHAIRMAN. I understood some one—I believe it was Mr. Cone, perhaps Mr. Parker—to say here the other day that at the time of the slump in the cotton market in the New York exchange futures went considerable below spots, whereas they had previously been above spots, and spots remained practically the same.

Mr. MARSH. The spots he was speaking about were the spots in the territory in which he operates. They were not spots in Bremen; they were not spots in Liverpool; they were not even spots in New York City. Mr. Cone, when he talks of spots, always means spots in the Carolinas and in Georgia. Those spots the holders did not turn loose, and if a man in the trade wished to buy those spots, he had to

pay the price which the producers and holders of that cotton asked for it.

The CHAIRMAN. I understand that. As a matter of fact, did the price of spots in the New York market fall in proportion of the price of futures?

Mr. MARSH. Certainly.

Mr. LEVER. Then there was a difference between the price of spot cotton in New York and Columbia, S. C., of practically $15 a bale in that proportion?

Mr. MARSH. Not as much as that, because Mr. Cone's statement was not literally true. Spots in the South generally fell approximately half what spots in New York and in Liverpool and in Bremen fell.

Mr. LEVER. I asked Mr. Cone the other day, and I think he said you would explain it, and I would like to have you do it, what is the basis of a local cotton merchant's operations, from the beginning of the day until 2 o'clock, when spots are posted in New York?

Mr. MARSH. What is the basis or what are the bases?

Mr. LEVER. Yes; supposing he has not heard from the market anywhere?

Mr. MARSH. He has not heard from what market?

Mr. LEVER. From the New York market, as to spots, say, because I understand they are not posted there until 2 o'clock. Then from 9 o'clock in the morning until 2 o'clock in the afternoon the local merchant in South Carolina or Texas will be without a guide as to the price of spots in New York.

Mr. MARSH. I should suppose that the price of spots in New York would be an insignificant part of the information which a southern merchant would need to determine the value of cotton in his territory.

Mr. LEVER. Would futures have any effect, the quotation of futures, on the market?

Mr. MARSH. Mr. Lever, futures means transactions in cotton, by buyers of cotton and sellers of cotton, at a price.

Mr. LEVER. We know, Mr. Marsh, that the local cotton merchant will always wait until he has the quotation of futures from New York before he will enter into a contract.

Mr. MARSH. Yes.

Mr. LEVER. Why is that?

Mr. MARSH. For the same reason that the engineer always looks at the steam gauge before he turns the steam into his cylinders.

Mr. LEVER. He wants to know that he has plenty of futures in store to carry along his spot transactions.

Mr. MARSH. Yes, that is a very good way to put it; you could hardly put it better.

Mr. LEVER. So, then, the futures do pull along the spots, and there is a relationship?

Mr. MARSH. What do you mean by "futures," if I may ask?

Mr. LEVER. I am using the general understanding of that term, general definition of it, as we understand it.

Mr. MARSH. I do not think I understand it as you do. I think we are talking more or less at cross purposes.

Mr. LEVER. Suppose you give us your definition of a future transaction.

Mr. MARSH. Of a future transaction, or of futures?

Mr. LEVER. Futures.

Mr. HAUGEN. You mean contracts for future delivery, do you not?

Mr. LEVER. Yes; future delivery.

Mr. MARSH. My understanding of a contract for future delivery is a purchase and a sale in contractural form of 100 bales of cotton at a price. It has seemed to me, as I have listened to members of the committee, as though some of you gentlemen had an idea that the conduct of the cotton business was of an excessively mechanical character, as though a spot merchant doing a large business all over the South and all over Europe and with American spinners needed only the tables of addition, subtraction, and multiplication, and went along in that purely mechanical fashion; that he looked at the price of futures in New York, added or subtracted a certain amount, and paid that price for cotton. Now, Mr. Lever, the cotton business is not conducted in any such mechanical way as that. The cotton merchants of the country can not conduct their business in any such mechanical way as that. The cotton merchants of the country base their operations upon a multitude of data. One of the most important of the facts which they consider, of course, is the price at which people actually are contracting with each other for cotton in Liverpool, New York, and New Orleans. But, in addition to that, they are basing their operations upon the multitudinous information they are getting from their southern correspondents as to the supply of this kind of cotton and that kind of cotton and the other kind of cotton, and also upon the information which they are getting from their correspondents abroad and in the spinning centers in this country, as to what spinners are demanding, what grades of cotton are being sought. Do not get it into your heads, gentlemen, that the handling of this great commodity is conducted by men who really need no more sense than schoolboys.

Mr. HAUGEN. What is the price of futures based on, estimates as to the supply and demand?

Mr. MARSH. No, sir; the price of future delivery is based on what people are willing to buy and sell for.

Mr. HAUGEN. How is it based? Is it not based on estimates, largely?

Mr. MARSH. No, sir; it is based on what people are willing to buy and sell for.

Mr. HAUGEN. Yes, but the buyer and seller must fix the price largely on estimates?

Mr. MARSH. If you ask me what the psychology is of a buyer's mind, and what makes him willing to buy at a given price; and the psychology of the seller's mind, and what makes him willing to sell at a given price, you are asking me a question which, in spite of a good deal of attention to these matters, is absolutely beyond my depth.

Mr. HAUGEN. If you should estimate the crop for next year, say at 15,000,000 bales, it is natural that you would fix the price lower than if it was estimated at only 5,000,000, and the price is fixed on estimates of supply and demand with the buyer and the seller who deal in futures and that which does not exist at the time. The crop must be grown before it is delivered, and the condition of the crop, I take it, has something to do with it.

Mr. MARSH. That is a question of ultimate psychology, of the motives that move men to take a certain course of action. My contention, or my explanation of the fixing of the price of futures, is that the price of futures is fixed at any moment when two men, one who has some cotton to sell and another who has some to buy, get together and buy it and sell it.

Mr. HAUGEN. I understand that part of it, but what governs? My contention is it is largely an estimate. If you are a buyer or if you are a seller, you are making an estimate as to the crop that is being grown at the time.

Mr. MARSH. I think perhaps you are exaggerating the extent to which a buyer buys on an estimate, or a seller sells on an estimate. I did not at first catch the full significance of your question. It is constantly happening that men are buying cotton when they are sure cotton is going down—that is, I say sure; they are in their own minds convinced that cotton is going down. And men are selling cotton, making contracts for future delivery of cotton, when they are confident that the price of cotton is going up. That is constantly happening, and it is happening for this reason, that the mind of man is utterly and absolutely unable to comprehend the immense interrelations of a trade like the trade in cotton and the trade in cotton goods, and men who conduct merchants' business learn very early in their careers that their business is to supply cotton when they can buy it and when they can sell it at the price at which they can buy and sell, no matter what their view of the ultimate course of the market may be. As a matter of psychology it is obvious that if the spinners of the world and the dry goods merchants of the world conceive that the crop is going to be a very large one, they are tempted to hold off, are tempted to reduce, at any rate, their purchases to the minimum with which they can get along for the time being, and in that way an estimate of the crop affects the prices at which they are willing to trade. But it is a very remote psychology that comes to bear.

Mr. HAUGEN. Reports as to the conditions of crops, in a large measure, regulate the price of cotton and wheat. You know what the demand is going to be. If you are growing, say, 12,000,000 bales, and 12,000,000 are required, and the reports come estimating the crop at, say, fifteen or twenty million bales, it goes without saying that the price of cotton would go down, just the same as wheat does in the West.

Mr. MARSH. It does not go without saying. One of the most extraordinary things about the cotton market is that it always goes up when your are sure it must go down, and it always goes down when you are sure it must go up.

Mr. LEVER. That is one of the strange things of the cotton market. I would like to have you explain that.

Mr. HAUGEN. Then supply and demand has nothing to do with fixing the price?

Mr. MARSH. Supply and demand is the absolute master of the price.

Mr. HAUGEN. I understood you to say that it had nothing to do with it; an estimate of 20,000,000 bales or an estimate of 10,000,000 does not change the price of the cotton.

Mr. MARSH. You could not bring out my point better. An estimate of the demand has no effect on the price; an estimate of

the supply has no effect on the price; but the demand and the supply determine the price.

Mr. HAUGEN. There must be an estimate before the crop is grown.

The CHAIRMAN. Pardon me just a moment. Is it not true that, when the estimate comes out from the Department of Agriculture indicating an uncommonly big crop of cotton, the price immediately responds to it by falling?

Mr. MARSH. That is true, and, as I said a moment ago in answering Mr. Haugen, estimates affect the motives that men make willing to trade at a price.

The CHAIRMAN. I asked my question because I understood you to say to Mr. Haugen that estimates had no effect on the price whatever.

Mr. MARSH. There I am speaking as taking a long-run view of the market. Of course, at a given moment an estimate suddenly thrown on the market will effect men's minds and the market will respond. I mean, an estimate of a very big crop suddenly thrown on the market will make a number of people who might have been on the point of buying say, "We will wait;" a number of other people who had expected to sell at a given price will say, "We can not sell at that price; we will sell at anything we can get." An estimate coming out does affect the market temporarily in that way. But I am taking a long-range view of the market, and when I take a long-range view of the market I say that the course of the market over a period of months is not affected at all by estimates of supply or estimates of demand; it is affected only by the actual supply and the actual demand. The market will go up in the face of the most tremendously bearish estimates, if there is not any cotton for sale there, and it will go down in the face of the most bullish estimates, if there is a great quantity for sale there.

The CHAIRMAN. You make the point entirely clear. You made a rather startling statement a moment ago when you said that it was a singular thing in regard to the cotton market that when you were sure it was going up you might absolutely count upon its going down.

Mr. MARSH. "Absolutely" is a little too strong.

The CHAIRMAN. Have you ever been able to figure out in your own mind why it happens so often in that way?

Mr. MARSH. Yes, I have been able to figure in a general way, and I will give an illustration which will, perhaps, bring out my meaning a little more clearly. Gentlemen from the South will remember that immediately after the famous Sully year, when cotton went to 17½ cents a pound, we had an enormous crop of cotton, the first crop of cotton ever raised in this country of over 13,000,000 bales. As the size of that crop became manifest it seemed clear to everybody who thought about the matter that there was such an overplus of cotton that the price must at least go as low as it had ever been in this country. Here was the most monstrous crop of cotton we had ever raised—at least it looked so—and it seeemd a perfectly safe proposition that cotton must go at least as low as it had ever gone in this country. Along in January and February, 1905, the market had gone down under the tremendous movement, amount offered, holding off of spinners, etc., expecting to get it at a lower price. But suddenly it seemed as though the market, for some reason or other, would not go any lower. All students of the market were absolutely nonplussed by it. They could not understand it; they could not see what was

happening. Here was the South selling every week hundreds of thousands of bales of cotton, and yet the market would not go down. It was not until a considerably later time that we found out what had happened, and what had happened was that merchants in Shanghai, importers of cotton cloths into China, had been attracted by the low level of cotton in the United States and had quietly contracted with mills for immense quantities of goods—immense quantities—quantities of goods so great as to be the output of many mills for two whole years, and as these spinners contracted with these Shanghai merchants for these goods, they in their turns hedged, either by buying contracts from cotton merchants, or by buying contracts in the New York market, and there was a demand for cotton of such enormous proportions as nobody would have thought of. Those Shanghai merchants had not been doing anything for a long time. My point is this, Mr. Chairman, that this world is so huge, the number of persons engaged in trade is so huge, that when you get a price movement in a great commodity like cotton that goes to a certain extent in one direction—we will say down—you set in motion the individual operations, not of a hundred, or a thousand, or of ten thousand, but of hundreds of thousands of people, and those operations are absolutely beyond any man's calculating. We can not any of us keep track of it. There is no human way to keep track of it. It is the operation of hidden causes like that which come into effect, when you do not see them in operation, that produces these peculiar results to which you call attention.

Mr. SIMS. Right in that connection, I would like to ask a question on a matter with which I am confident Mr. Marsh is thoroughly familiar—if it was not a fact in the year you speak of that there was a great organization—you might say a general uprising in the South—and a great meeting of producers at New Orleans for the purpose of agreeing among themselves to hold actual cotton off of the market, and if that did not affect the price very materially?

Mr. MARSH. All I can say about that is that I know there were many meetings and many resolutions, but I also know that the South kept selling cotton in great quantities.

Mr. SIMS. Do you mean that it did not, in a measure, in a manner, to a certain extent, check sales?

Mr. MARSH. I haven't any idea, but I know the South kept selling cotton.

Mr. SIMS. I am telling you what I do know. They got together, and they stored a great quantity of cotton down there, to take care of it by storage, and in the end the advance in cotton was offset by the decline in quality of the cotton, because they had had to keep it stored without proper protection from the weather, and I know they did not sell that at the time I am speaking about.

Mr. MARSH. I have heard of that.

Mr. LEVER. I would like to ask you if you have an opinion as to the proportion of illegitimate transactions carried on in the New York exchange as compared with legitimate transactions?

Mr. MARSH. What do you call an illegitimate transaction?

Mr. LEVER. I would call an illegitimate transaction one in which the delivery of cotton is not contemplated by the buyer or seller.

Mr. MARSH. You are really asking me a question not quite as personal, but along the same line as that which was asked me on Friday, and which I felt some objection to. I can not tell, and nobody can tell, what proportion of frauds there are in a given body of men.

Mr. LEVER. To make my position clear, I will read from one of your own speeches, Mr. Marsh, and see what you mean by it. I do not want to misrepresent you at all, and certainly not hurt your feelings. This is one of your speeches delivered at Atlanta or at Savannah.

Mr. MARSH. At Washington.

Mr. LEVER. You say in that speech:

I am perfectly confident that an actual analysis of the transactions of the New York Cotton Exchange for a day or a week or a month or a year (if such analysis were possible) would show that not 25 per cent of those transactions are speculative.

Just what do you mean by the word "speculative?"

Mr. MARSH. I certainly do not mean illegitimate. I call an illegitimate transaction a transaction on which a man enters with a hidden intention in his own mind that he will not fulfill the contract which he enters into. A speculative transaction is one upon which a man enters for the purpose of making a profit, but fully intending to fulfill his contract, whether he makes a profit or a loss.

Mr. LEVER. What are the other transactions, as distinguished from this 25 per cent you speak of here?

Mr. MARSH. They are the hedging operations of cotton merchants.

Mr. LEVER. So that 75 per cent of the transactions of the exchange, in your opinion, would be hedging transactions?

Mr. MARSH. Year in and year out, I should say that, yes.

Mr. LEVER. And 25 per cent would represent what you call "speculative" transactions, but not what we term "gambling" transactions?

Mr. MARSH. Will you read again exactly what I said?

Mr. LEVER. You say:

I am perfectly confident that an actual analysis of the transactions of the New York Cotton Exchange for a day or a week or a month or a year (if such analysis were possible) will show that not 25 per cent of those transactions are speculative.

Mr. MARSH. You will notice there I did not estimate the speculative transactions at 25 per cent.

Mr. LEVER. I understand that.

Mr. MARSH. I did not make an estimate of the amount of speculative transactions at 25 per cent and of hedging transactions at 75 per cent.

Mr. LEVER. I may say, in justice to you, that you go further and say:

Indeed, I believe the proportion is far less than this.

What I was driving at was just what you call a speculative transaction as distinguished from the other transactions on the exchange.

Mr. MARSH. I call a speculative transaction in cotton a transaction in which a man buys cotton, believing that it will enhance in value, or sells a contract for the delivery of cotton believing that later he can buy the actual cotton at a lower price, or that he can buy a contract from somebody else at a lower price.

Mr. LEVER. You did not desire to describe, then, a contract in which no delivery was expected?

Mr. MARSH. Certainly not.

Mr. LEVER. Mr. Marsh, you must know that in the various dealings of the members of the New York Cotton Exchange with the public a great many transactions are made through the exchange in which delivery is never intended.

Mr. MARSH. There, Mr. Lever, we get up against the same stone wall which I have seemed to strike several times in answering questions to members of this committee. It goes without saying that when a man uses contracts for the delivery of cotton for hedging purposes, or, we will add, for speculative purposes, it is not his wish or his expectation to receive or to deliver the actual cotton. It is his wish and his expectation that he will liquidate his obligation by entering into another obligation with another party; in other words, substitute a new contract for his outstanding contract. But, when you use the word "intention," Mr. Lever, as contrasted with "wish" or "expectation," you are getting into entirely new ground. If I buy a contract for 100 bales of cotton from the New York Cotton Exchange for speculative purposes, it is my wish and my expectation that I shall not have to take that actual cotton, but that I shall be able to sell my contract out to somebody else without taking the actual cotton. But, Mr. Lever, it is my intention that the cotton called for on my contract shall be delivered to me or delivered to somebody whom I substitute for myself. You know you can get very far afield when you go playing with words. When you talk about a contract and a man's intentions when he enters into a contract, you are dealing with something that the courts have very carefully analyzed and very carefully limited, and a man's intention and his expectation are two different things.

Mr. LEVER. That is very true. Of course, I can quite well understand how, when a spinner telegraphs you an order to buy 10,000 bales of cotton, you have every reason to assume that it is a legitimate transaction.

Mr. MARSH. What do you mean by "a legitimate transaction?"

Mr. LEVER. I mean a transaction in which delivery, either to him or his substitute on the exchange, will be made.

Mr. MARSH. Yes.

Mr. LEVER. But when a man not connected with the spinning business—manufacturing business—and they buy practically all your cotton, I understand?

Mr. MARSH. How do you mean?

Mr. LEVER. I believe you made the statement a while ago that your chief customer was a spinner.

Mr. MARSH. I thought you meant a man not connected with the spinning business bought practically all our cotton.

Mr. LEVER. Oh, no; but if a man not a spinner should telegraph you for 10,000 bales of cotton, on a stop-loss order, that might be notice to you that that is not really a legitimate transaction within the rules of the exchange, and that brings you back to Mr. Sims's proposition the other day, that you did not entirely make clear to me; in other words, it seems to me that a stop-loss order coming to a member of the exchange is notice to him that that is not a legitimate transaction.

Mr. MARSH. Is it not legitimate for a man to buy cotton?

Mr. LEVER. Yes.

Mr. MARSH. Is it not legitimate that John Jones, Tom Smith, anybody who wants to and has the money to do it, can buy cotton?

Mr. LEVER. I can understand very well how the spinner would give you a reason to believe that he was entering into a legitimate contract, but when the outsider——

Mr. MARSH. Is it not legitimate for the outsider?

Mr. LEVER. It is legitimate, but it is not customary. I do not buy steel, because I do not know anything about it.

Mr. MARSH. There is a very large class who do.

Mr. LEVER. Mr. Patten, for instance, is a wheat and an oats man, and it is not likely he is going to buy cotton for purposes of spinning it and for no other purpose, except for the purpose of speculation. Of course, that is a legitimate purpose. It seems to me that the stop-loss order ought to put you on your warning. Suppose you explain to the committee just what the purpose of a stop-loss order is.

Mr. MARSH. A stop-loss order is an order when the loss has reached a certain point, or when a decline has reached a certain point—there may be no loss in the transaction—to sell the cotton out on the market.

Mr. LEVER. At the market price?

Mr. MARSH. Whatever you can get for it.

Mr. HAUGEN. That applies to spinners as well as speculators?

Mr. MARSH. That applies to spinners as well as speculators. A man in the South buys 500 bales of cotton while he is under negotiations with some spinner. The negotiations are a little longer drawn out than he expected, and he gets uneasy, and for fear his trade is going to fall through, he says to himself, "I don't want to be held up here with 500 bales of cotton I haven't any market for. If the market goes down to a certain point I will sell a hedge." So he sends me, or some other commission man on the floor, a stop-loss order, to sell a hedge if the market goes down to a certain point. There are multitudes of those orders coming into the market all the time. The very fact of a stop-loss order is no indication a man is speculating.

Mr. LEVER. Mr. Chairman, Mr. Marsh is such a willing and able witness that I would like to ask him to give us, briefly and comprehensively, his idea of the function of a cotton exchange, such as we have in New York.

Mr. MARSH. I wrote a whole speech about that, Mr. Lever.

Mr. BURLESON. Mr. Lever was not here at the time when you went over it fully.

The CHAIRMAN. I think it was very thoroughly covered.

Mr. BEALL. I want to call attention to certain things that were said in this report of Herbert Knox Smith and get your opinion as to the correctness of them. He says:

> Operations in future contracts are, in the minds of many persons, of a character exactly similar to wagers on horse races or any other form of bet. Undoubtedly, as far as many individual traders are concerned, this popular view is correct.

Mr. BEALL. I understand that that statement would not meet your indorsement?

Mr. MARSH. I have no way of telling how many persons who speculate in cotton have the mental attitude or makeup of men who wager.

Mr. BEALL. Let me read this statement:

> In actual practice it is undoubtedly true that a large number, and probably a considerable majority, of buyers of future contracts on the leading exchanges do not desire the delivery of actual cotton, and that a majority of sellers, on the other hand, do not contemplate making such physical delivery.

Mr. MARSH. I have already said that a buyer or seller of a hedge is using the contract without the expectation that he himself, without substitution of somebody else, will make delivery or take delivery.

Mr. BEALL. Suppose, Mr. Marsh, you should buy 1,000 bales of cotton from "A," desiring and expecting delivery of that cotton to be made to you.

Mr. MARSH. Yes.

Mr. BEALL. Would you permit A to substitute, at his own will, the party who would make that delivery?

Mr. MARSH. Certainly. Why not?

Mr. BEALL. Without any question as to the ability of B, to whom he might transfer that contract, to comply with it?

Mr. MARSH. If both A and B are members of the New York Cotton Exchange, the question of the responsibility of B does not come up. As a member of the New York Cotton Exchange I am obliged——

Mr. BEALL. Anybody throughout the country can send in orders through the brokers of the New York Cotton Exchange, buy and sell cotton through those brokers?

Mr. MARSH. Precisely, but those brokers are responsible to their fellow members for the contracts they make.

Mr. BEALL. You are a broker, I understand. One hundred bales of cotton is worth now about $7,500?

Mr. MARSH. Yes.

Mr. BEALL. When you receive an order for the purchase or for the sale of 100 bales of cotton, how much cash is required to accompany that order? How much money, how much per bale, is required in the way of a margin?

Mr. MARSH. There is no requirement.

Mr. BEALL. As I understand it, then, a man in Texas who wants to buy 100 bales of cotton from a broker on the cotton exchange sends an order to you, and will not be required to put up any amount of money?

Mr. MARSH. I shall certainly ascertain his credit before I execute the order.

Mr. BEALL. What means have you of ascertaining?

Mr. MARSH. Mr. Beall, how do Marshall Field & Co. ascertain about the credit of the 10,000 dry goods men they sell goods to on credit?

Mr. BEALL. Do you have correspondents out over the country?

Mr. MARSH. Certainly, sir.

Mr. BEALL. Is it not a fact that anybody who has a margin to put up can come into the office of one of your correspondents and direct the purchase, through that correspondent and through you, of any number of bales of cotton, or the sale of any number of bales of cotton?

Mr. MARSH. If he is a responsible person, yes.

Mr. BEALL. And only the man who is capable of delivering the 100 bales of cotton can buy the cotton through a brokerage firm in that way?

Mr. MARSH. How is that?

Mr. BEALL. It is only the man, then, whose financial responsibility is such as to satisfy you that he is capable of performing his contract, who can buy or sell the 100 bales of cotton?

Mr. MARSH. Every member of the exchange being responsible to every other member of the exchange, naturally exercises his own best discretion as to persons for whom he will execute contracts. Every member of the exchange knows that if he executes an order for a contract from a person who is not responsible, then he, the member

of the exchange, has got to make good. There is absolutely no difference between the methods of doing business in cotton, as far as credits are concerned, and the methods of doing business in dry goods, as far as the credits are concerned—not the slightest.

The CHAIRMAN. Let me follow that just a bit longer, Mr. Beall. I want to get my own mind clear in the matter, if I can. Mr. Marsh, suppose I should wire your firm from my home, in Kansas, to buy me 1,000 bales of cotton. You do not know me; you probably have no correspondent in my neighborhood to inquire as to my credit. Do you execute that order?

Mr. MARSH. I should not execute it at all.

The CHAIRMAN. Would you execute it if it were accompanied by a draft, say for $1,000?

Mr. MARSH. No; I do not think there is any member of the New York Cotton Exchange who would.

The CHAIRMAN. Would you simply throw it in the waste basket, or would you proceed in some way to satisfy yourself as to my credit?

Mr. MARSH. I do not know what I should do.

The CHAIRMAN. Have you ever had an order from some one whom you did not personally know, or with whose credit you were not familiar?

Mr. MARSH. I do not think personally I have. I have heard of such orders being received. They are generally shown around the floor of the exchange as curiosities. What members do in the way of answering them I do not know, but every once in a while somebody comes around and says, "Just look at this; here is an order from a man in Kalamazoo who wants me to buy 500 bales of cotton for him, says he has deposited $500 in the Third National Bank of Kalamazoo to my credit." Then we all have a laugh, and that is the end of it.

The CHAIRMAN. I think the general impression prevails throughout the country that an order will be executed for anybody on the Cotton Exchange, if it is accompanied by the required amount for margin. I do not know myself what the amount is, or whether there is any specific amount; but the general impression prevails that there is some generally understood amount of money which must be deposited in the way of a margin when the order is given, and that the order being executed, it will be held to the credit of the purchaser, until, in the event of cotton going down, enough has been lost to cover the margin; whereupon the purchaser is notified that he must put up more margin or his cotton will be sold. Is that impression entirely mistaken?

Mr. MARSH. I should say it was entirely mistaken, sir. I do not know of any firm in the New York Cotton Exchange—of course, I will not say that there may not be some member or members of the New York Cotton Exchange who would so violate the principles of reputable business as to do precisely what you describe, but it certainly would be a very small contingent who would dream of doing a thing like that.

The CHAIRMAN. In the case of one of your regular customers with whose credit you are familiar, do you require any sum to be put up by way of a margin in executing his order?

Mr. MARSH. No definite sum. This is the customary method of handling that matter: As you probably know, commission houses in the street—as we call them—being some 125, I think, houses in

New York that are carrying contracts for their own account, have to keep their obligations with each other, as we call it, "margined to the market," by which I mean this: If a commission house, A & Co., is a seller of hedges or of contracts to a commission house, B & Co., and the market advances after A & Co. have sold those contracts to B & Co., then A & Co. are required to put up, either directly with B & Co. or in a trust company, money enough to bring those contracts up to the market price. That requirement of the market means that any house carrying on a commission business must have a substantial amount of cash on hand all the time, and naturally a house having these requirements of cash will not carry contracts for its customers without making them supply a part of the cash or the whole of the cash which they have to use in this operation of margining the contracts to the market. It is therefore customary for commission houses, in the case of their very strong and well-known customers, to simply ask them to remit now and then when the market balance against them reaches three or four thousand dollars, or, possibly, eight or ten thousand dollars. With smaller customers, and customers at a distance, it is customary to ask that the customer leave with the commission house a sum of money sufficient to supply these cash requirements for any ordinary movement of the market.

The CHAIRMAN. Is there a fixed amount of that sum, say $5 or $10?

Mr. MARSH. No; it is a matter of private arrangement between each commission house, or member of the exchange carrying contracts, and each individual customer.

The CHAIRMAN. Your statement, then, is that the members of the New York Cotton Exchange, as a rule, pay no attention to miscellaneous orders which they might receive from Tom, Dick, and Harry out over the country, even though they might be accompanied by checks to cover reasonable margins?

Mr. MARSH. I should say certainly they do not.

Mr. LEVER. These 125 commission houses operate through the members of the exchange?

Mr. MARSH. They are members; that is, the members of those firms are members of the exchange.

Mr. MANDELBAUM. Mr. Lever asked Mr. Marsh whether it was true that spinners of this country or spinners in general, or at least seven-tenths of the spinners, use only grades from low middling to good middling; at least I understood his question that way. What are the other three-tenths using, Mr. Marsh?

Mr. MARSH. They are obviously using the other grades of cotton.

Mr. MANDELBAUM. So there is none left when a crop is practically marketed?

Mr. MARSH. No.

Mr. LEVER. What per cent is below low middling?

Mr. MARSH. Mr. Lever, you are now asking a question which nobody has an answer to. Mr. Herbert Knox Smith, in his investigation, made numerous attempts to discover the proportion of the various grades of cotton in various crops. So far as I can find in his report, he has only one statement with regard to this proportion, and that statement interests me chiefly because of the small proportion of middling cotton which it showed. He had a statement from one firm operating in the Atlantic States as to the proportion of the various grades of cotton which they bought in two years. In one of

those years, I remember, the proportion of middling was 19 per cent, and in the other year it was 29 per cent. Obviously the other grades represented, in one case, 71 per cent, and in the other case 81 per cent.

Mr. SIMS. Mr. Marsh, I want to preface my questions first by stating that I have no personal interest in this matter; that I am simply trying to represent my constituents, some of whom are present—Mr. Brooks, for one—and I think about every farmer in the district, from the letters I am getting, believes—maybe they are incorrect—that the operations of the New York Exchange, as conducted, have been such as to be an injury to natural, ordinary business, and affect the prices of the products which they have, I will say artificially, not always, governed by natural conditions. I may not use technically accurate language, for the reason that I do not know it, and I suppose that is what was the matter the other day when I asked you a question which I thought you or any other man of your great information would understand. In other words, it might not have been that I would have used the words I did had I been possessed of the knowledge you are possessed of. But I have no idea of trying to be unpleasant about this matter, but to get the truth. I do not want the New York Cotton Exchange abolished. Personally, individually, I do not want any of its functions reduced or injured, provided, as a whole, it is better to have it with all the functions it has than to deprive of it of some of these functions. But that is the reason I am going to ask you the questions about it, and I may use language used in the newspapers that has no place in the vocabulary of a member of the exchange, but you will readily understand why I ask them. In the first place, is it not the opinion and judgment of the members of the cotton exchange—and when I say cotton exchange, I do not mean the building; I mean its membership; its actual, living, constituent members—do they not condemn what has generally been called "bucket shops," and bucket-shop transactions, throughout the entire country?

Mr. MARSH. They do.

Mr. SIMS. And have always used their influence to prevent the existence of those instrumentalities as far as possible?

Mr. MARSH. They have.

Mr. SIMS. They have always desired that quotations of the New York Stock Exchange should not be furnished these men who are operating the bucket shops?

Mr. MARSH. Yes.

Mr. SIMS. Is it not a fact that about all the States in the Union, where such bucket shops were operated, have passed laws against their existence; how is that? I do not know.

Mr. MARSH. A very large number of States have.

Mr. SIMS. There are some States, then, I suppose, that have not?

Mr. MARSH. Most of the Eastern States have, and the Southern States all have.

Mr. SIMS. Is it possible for a bucket shop to be operated successfully without receiving currently, daily, momentarily, I might say, by wire, the quotations upon the New York Cotton Exchange or some other cotton exchange?

Mr. MARSH. I have no knowledge of what is possible in the way of a bucket-shop operation. I should think it would be a great incon-

venience to a bucket shop not to have any such quotations on which to base its own quotations.

Mr. SIMS. The fact is, I never was in one in my life and would not know one if I was to meet it in the road; I know it from the description given and what is charged up to it. If the current use of the telegraph were denied to the bucket shops every day, they would naturally go out of existence; could not exist for a moment. Is it not a fact that the transactions of the proprietor, or whoever was operating, the actual head, in buying or selling cotton, to some extent transactions upon the New York Cotton Exchange upon those exchanges would be restricted?

Mr. MARSH. I have never known such a case, sir.

Mr. SIMS. You think they never do the thing in that way?

Mr. MARSH. I never heard of a case.

Mr. SIMS. I am asking for information; I am not making a charge.

Mr. MARSH. I have never known that to be done.

Mr. SIMS. I thoroughly agree with you about a bucket shop being an evil, because it looks to me, the way I define it, as simply betting on whether the quotations on the New York Exchange will be higher or lower than the current quotations at the time the trade is made. Therefore I call them gambling transactions, because it is utterly impossible for persons to deal with that without one person making what the other person loses. If there are transactions conducted on the New York Exchange, not by its members, but by outsiders, or what we call outsiders, those who operate through members, who are not members, that, in effect and nature, is just the same; I mean in the results, not in the language of the contract, not in the intention of the party to speculate, not in cotton, but in futures, in contracts for future delivery of cotton, whereby I buy to-day a future from Mr. Burleson for October; I do not mean to charge that Mr. Burleson would do anything of that sort; I am only using this for illustration. It is a long time to October. Fluctuation is against me. It goes down 40 points, and I give an order to do what you gentlemen call in the papers "covering;" I do not know what it really means. If I wire you to cover my contract which Mr. Burleson holds, and I lose 40 points and the commission I pay he has made it absolutely, so far as I am concerned, and so far as he is concerned, so far as it has gone, is apparently a bucket shop transaction in the effect between him and me.

Mr. MARSH. In the cash result it is the same.

Mr. SIMS. That is it. That is what they are all playing for, is the cash.

Mr. MARSH. But in the mutual obligations which you entered into, if you did this through the New York Cotton Exchange, the difference is immense. In the mutual obligations which you entered into through the New York Cotton Exchange, each of you pledged his entire fortune to make good that contract.

Mr. SIMS. I understand legally that I would have to do that if it requires it. I do not mean that your contracts are illegitimate in the sense of being illegal or nonenforceable, but I am speaking about the effect of the business on the country at large. Mr. Burleson turns around and he orders his contract closed, and he quits the market with $400 of my money, and is out and gone. That is a purely speculative transaction—I understand you call it that. His contract may

be sold to some other person, and backward and forward that October contract for a thousand bales might be operated in a hundred times, with the result that every man who has handled it has either lost or made without any reference to the value of cotton in October or as to the final execution of that contract. What we want to do, if we know ourselves and can find a way to do it, if possible, by legislation, is to prevent that character of trading where—I say intention; I do not mean corruptly intending not to comply with the contract, but really delay in the execution of it and the possibility of fluctuations growing out of it between the date made and the date of execution. That is all, if I understand, the cotton man, the cotton grower, the spinner, wants, if that can be done. I understand that, so far as the kind of transaction here possible and carried on in the exchange or through its instrumentality, it may never know a thing about it—that it is a public evil just as much as betting on a horse race would be, because somebody is always bound to lose in a horse race what the other person makes; in other words, it does not encourage industry, it does not encourage the creation of wealth. It is only the division of a certain amount of money between parties who are in the game. I do not use that word offensively, because I believe the gentlemen on the exchange use it themselves. If I understood you the other day I understood you to say that if I sell a contract, say, now, for next February cotton in New York, at the time I sell not intending myself to deliver that cotton, it would be a fraud, and it would be immoral upon my part to do such a thing as that. To-day I understood you to say in effect the opposite, that if I intended myself to sell that out or take a counter contract from somebody else, that was legitimate. Is that what you mean?

Mr. Marsh. What I said the other day was that if it was your intention not to fulfill the terms of your contract when you entered into it, it was fraudulent.

Mr. Sims. Do you mean by that fulfill it through myself, or through somebody else I might sell it to?

Mr. Marsh. I mean your personal intention to fulfill that contract.

Mr. Sims. By actually delivering what I sell six months ahead myself?

Mr. Marsh. Is that the only way in which men in business fulfill their contracts?

Mr. Sims. If my personal intention is to repudiate it in every way possible, when I make a contract for a day certain and then do not expect to incur the liabilities of the contract; but you must have understood, at least it is natural to suppose you did, what I mean is that we are speculating in contracts and not in cotton; that we are investing in contracts and not investing in cotton. I think investment speculations are always good things for the property invested in, but the contract is not property—it may be potential property; I see you frown; I suppose that is what you mean. Anything is property that you can measure in damages. But I can buy 100 bales of cotton, and I can keep it and sell it to the chairman of the committee for a dollar profit. You sold it to me for what it was worth at the time. I make money out of it. He can sell it to Mr. Lever and make money, and Mr. Lever can sell it to Mr. Beall and make 50 cents profit. Everybody who has touched that cotton has made money. But in

this dealing in cotton where it is for a future date, future month, where the contract if bought and sold backward and forward, up and down, according to the fluctuations of that contract by perhaps 50 or 100 men before the day arrives, that there are sums of money made by the fortunate ones that must in every instance be lost by the unfortunate ones. Investment speculation in spot could not, as I understand it, have any such effect; is not that true?

Mr. Marsh. Let me answer that by describing the situation of the market for the past year, up to the 31st of December, 1909. Your contention is, as I understand it, that among speculators, pure and simple, in so far as the speculative transactions in the market are concerned, the successful speculators simply take away from the unsuccessful speculators. Everybody knows that for a year past, steadily, without any interruption, there was large speculation in cotton.

Mr. Sims. You mean contracts.

Mr. Marsh. I mean both cotton and contracts.

Mr. Sims. But more largely in contracts?

Mr. Marsh. Not more largely in contracts, I should say, because the southerner who was cut off from entering into contracts on the exchanges has speculated very heavily in cotton. But leaving that aside, there has undoubtedly been very heavy speculation in cotton for future delivery, cotton bought or contracted for for future delivery. During the course of the year 1909 cotton advanced in value nearly 100 per cent. The speculators who early in the year had bought contracts for the future delivery of cotton to them made very large sums of money. I have yet to find anybody who lost a cent.

Mr. Sims. Now you mean cotton; you do not mean contracts.

Mr. Marsh. I mean contracts.

Mr. Sims. Do you mean that persons who bought contracts in that time you specify from other persons who themselves did not furnish the cotton, but took the loss on their contracts, incurred no losses?

Mr. Marsh. I did not say from persons who did not furnish the cotton. I said who bought contracts from other persons who sold contracts.

Mr. Sims. I am speaking of the Cotton Exchange contracts, not private contracts, individual private contracts.

Mr. Marsh. I can illustrate by a transaction in which an enormous profit was made, in all probability, and in which that profit was furnished by a party who did not lose a cent. I was told shortly before the turn of the year by one commission merchant in the market that he had just bought in for a continental spot merchant 200 bales of futures which showed a loss of over 6 cents a pound, over $30 a bale. That spot merchant on the other side did not lose a cent. He had bought that cotton away back when cotton was around 8½ cents a pound, and he had sold and hedged against it in the New York market and carried the cotton on that in Havre. Finally he found a spinner who wanted to buy that cotton, and he sold the cotton to the spinner and covered his hedge in New York, and the money which he remitted in New York was in all probability turned over to some successful speculator. I simply mention that as a case that happened to come to my attention, that was mentioned to me as unusual because of the length that that hedge had been allowed to remain out. But

the advance in the price of cotton has not hurt speculators in this country. The profits of speculators on the bull side of cotton have not come out of speculative shorts; there have not been any speculative shorts. That is the reason why the market broke $15 a bale, when the speculative longs tried to sell out.

Mr. SIMS. How can there be a long without a corresponding short exactly the same amount in the same month, and yet their trades be made according to the rules of the New York Stock Exchange? In other words, are they not always absolutely balanced, that there is as much sold as bought, and as much bought as sold, in futures?

Mr. MARSH. Exactly.

Mr. SIMS. Now, then, our short supply of contracts close for the month of delivery, say, for instance, shorts in October that existed in January are all closed out during January, both longs and shorts.

Mr. MARSH. How is that?

Mr. SIMS. Let us suppose that all the dealings that existed in the October month that were made in January, from the first to the last, between the original parties, were closed out during that month.

Mr. MARSH. During January?

Mr. SIMS. Yes.

Mr. MARSH. That is an impossible proposition.

Mr. SIMS. I know perhaps impossible; I do not think it is impossible.

Mr. MARSH. It is like supposing what would happen if two and two make five.

Mr. SIMS. I think you will get at it, though I do not think it is necessary to explain it to you, though it might be necessary to have it in the hearings. In December there is a large amount of cotton bought and sold for July delivery?

Mr. MARSH. Yes, sir.

Mr. SIMS. In January these original parties, the sellers all buy in their contracts and quit, take their loss, and the buyers the same way; but in the month of January you have not a single man on your books for July contracts. I do not mean you will not have July contracts, but of the original dealers you will not have one on your books in January. How is it that all those dealers who made their deeds in December and went out in January can all make money?

Mr. MARSH. In the first place, let us take the place of the people who in December sold October.

Mr. SIMS. Can you not take it the way I did? All these contracts must close in January that were made in December, by the same parties.

Mr. MARSH. That is something that never has happened since cotton trading was begun.

Mr. SIMS. Could it not happen?

Mr. MARSH. No, sir.

Mr. SIMS. Why? Explain why.

Mr. MARSH. Any more than a man's heart can stop beating without his dying.

Mr. SIMS. Do you mean if I sell or buy cotton for July delivery in December I can not sell it out in January?

Mr. MARSH. Certainly you can sell it out.

Mr. SIMS. Then, if a man sold a contract for July, why can not he buy it in January?

Mr. MARSH. Certainly he can.

Mr. SIMS. You just announced a minute ago that was impossible.

Mr. MARSH. I did not say that was impossible. I said it was impossible as the cotton business exists for all the buyers of July to sell out in January and all the sellers of July to buy in in January.

Mr. SIMS. That is only begging the question, if I understand it.

Mr. MARSH. No, sir; I do not want to beg the question.

Mr. SIMS. I mean individuals who in December buy July, those individuals changed and got their cotton contracts into the hands of other people in January.

Mr. MARSH. I did not understand your question. I must beg your pardon. I did not understand what your point was. I understood you to mean that the original buyers of July and the original sellers of July would get together in January and close out.

Mr. SIMS. Oh, no; I meant that they are selling out and buying out. How is it possible for them all to go out, long and short, and all get out of the market in January, without a loss to a number of those dealers?

Mr. MARSH. First, the case you suppose actually never has happened and never will happen.

Mr. SIMS. Can it not happen to some extent, whether it is all or not?

Mr. MARSH. To some extent, yes.

Mr. SIMS. Then it is possible.

Mr. MARSH. But let me draw your attention to the practical method of conducting the hedging operations of a spot merchant. If a spot merchant has a thousand bales of cotton which he buys in December and which he has in Galveston or Bremen or somewhere in the world, and sells a thousand bales of July as a hedge against it, which is a very common operation, if in January he has not yet sold the cotton, has not yet sold the cotton to a spinner and bought in his hedge, but he makes up his mind that he does not like to be short of the July contract as a hedge and wants to be hedged somewhere else, and buys in July in January, but sells March or sells May, or sells May-June, in Liverpool——

Mr. SIMS. You mean buys it in at a loss?

Mr. MARSH. Yes, sir; certainly.

Mr. SIMS. Who has got that loss?

Mr. MARSH. It may have been got by a speculative long; but mind you, the spot man has not lost anything yet.

Mr. SIMS. I am talking about transactions that are, in their nature and effect, wagers, gambling, artificial transactions, that are made in advance, closed out in advance of the month upon which delivery could be made.

Mr. MARSH. Let me put this case, and see if it clears the matter up at all. I buy 100 bales of cotton in December and sell 100 bales of July contracts as a hedge. The market goes up $3 a bale. In January I make up my mind that I would rather be hedged somewhere else rather than in July. I buy in my January, and my account sales come in from my commission house debiting me with $300.

Mr. SIMS. Charging you up with it?

Mr. MARSH. Instead of selling July I sell March. I have already been debited and somebody is credited.

Mr. SIMS. With the $300?

Mr. MARSH. With the $300; but I still have my cotton. A few days later I make up my mind that rather than having March sold in New York I will sell March-April for Liverpool. Meanwhile the market has gone up $2 a bale more. I buy in my March contracts in New York and am again debited with $200.

Mr. SIMS. Five hundred dollars there.

Mr. MARSH. But I again sell my contracts in Liverpool. Three weeks later I may make up my mind again that I would rather hedge in May in New York than in March-April in Liverpool. Again the market has gone up and I am debited with a loss of $300 on my Liverpool transaction, and sell May in New York. I may do that, not once or twice, but twenty times, and be debited on every one of those transactions and still I have not lost any money.

Mr. SIMS. Did that fellow make it who got the $800?

Mr. MARSH. He made it if he was a speculator; he did not make it if he was a spinner or a merchant.

Mr. SIMS. I am talking about speculators.

Mr. MARSH. If he was a speculator he made it; if he was a spot merchant or a spinner he did not.

Mr. SIMS. Then that proves, if I understand the way you answer, that in the very operation you have mentioned, having operated in months and closed or changed your operations before those months arrived, there was a loss of $800 to you, which became a profit of $800 to another party, without any reference whatever——

Mr. MARSH. If he was a speculator it was a profit of $800.

Mr. SIMS. That does not make any difference who he was.

Mr. MARSH. Yes it does. If he was a spot merchant he did not make it.

Mr. SIMS. Why?

Mr. MARSH. Because he had already sold to a spinner at a lower price. So what he was making on future contract, his hedge, he was losing on what he sold to the spinner.

Mr. SIMS. You assume he did.

Mr. MARSH. I know he did.

Mr. SIMS. Can not a spot merchant speculate as well as an outsider?

Mr. MARSH. If he does he is a speculator.

Mr. SIMS. He is that, of course; but he is a spot merchant, too. You have proven, and I am glad you did, because you are candid—you have shown that the dealing in futures is attended with a loss by one party and a profit by the other party in advance of the day of delivery, in advance of the execution of that contract, without any reference whatever to the final outcome of that contract. That is the very thing, if we can do it, that we want to eliminate, and why? When a man can make money by speculating on contracts six months or a year before contracts are to be executed, it tempts the party who can do that in doing just what man has always done, try to create a sentiment for or against the side he is on, and in that way affecting temporarily, if not permanently, the price, by way of sentiment or otherwise, of those who are buying and selling at the time. That is what we want to eliminate, and if the New York Cotton Exchange can do that through their own rules and yet retain an exchange that

will answer all legitimate purposes, I for one am ready to join you in that.

Mr. MARSH. I would like to say in answer to that, that I can not conceive of a course better calculated to make the United States a nation of serfs, or peasants, of persons without any enterprise, without capacity for forward movement of any kind or description, than successfully to put into effect the legislation which you say you desire.

Mr. SIMS. That bill may be a bad one; I am not the author of it; I do not know. All of them may be bad. That is what I am trying to find out, what is the sort of bill we want. Now, Mr. Marsh, is there not a class of traders on the floor of the exchange who are termed, generally, "scalpers," who as a rule buy in and out and sell in and out every day, as a rule do not go long or short beyond twenty-four hours or a very few days? There is a class of dealers referred to in the papers as "scalpers," is there not?

Mr. MARSH. There are members of the exchange, yes, who speculate during the day.

Mr. SIMS. In that way, temporarily, from day to day?

Mr. MARSH. Yes.

Mr. SIMS. Is it not evident to anybody that those gentlemen do not have in their minds any intention to deliver the cotton that they speculate in every twenty-four hours, six months afterwards? If they did they would keep what they bought, would they not?

Mr. MARSH. I again seem to come up against a blank stone wall. Every one of those men, members of the New York Cotton Exchange, enters into a contract with full legal and moral obligations attached to it. It is, and has always been, regarded as the right of every American citizen so to do, and a member of the New York Cotton Exchange does it.

Mr. SIMS. That answers it.

Mr. BURLESON. Do I understand by your answer that they do not make those?

Mr. SIMS. He says they do. They buy and sell out every day; do what is called "scalping." Is it not sometimes the case that there is a large number, Mr. Sully, Mr. Brown, or anybody—I mention those because they are generally known—who are running what you call a campaign? The day is approaching for delivery, the spot month is coming to hand, the contract month is coming around. The papers frequently say—it is published right there in New York—that the shorts settled with Mr. Sully on the outside. What does that mean? That does not mean they settled through the ordinary channels of the cotton exchange, does it?

Mr. MARSH. I have heard of those settlements.

Mr. SIMS. Are there not such settlements? Is it all false report?

Mr. MARSH. I dare say there are. I can not say there are not. I hear of them as taking place. I see in the newspapers that they have taken place. They are generally as elusive as the Irishman's flea, but the newspapers love dearly to report that so-and-so has won out and made a settlement with so-and-so.

Mr. SIMS. Let me state what occurred and what I saw myself, and ask you to explain it. I happened to be in New York once when the condition report of the Government was about to come out. It was in the first part of September or October. I was in a banking house

and a gentleman came up from the floor of the exchange. I do not know that he was a member. He had formerly been a member of the New Orleans Cotton Exchange. They were guessing around and talking among themselves as to what the condition report would be and what it would mean. If it was a certain figure it would be very "bullish," if it was a certain other it would mean nothing, and if it was a certain other it would be "bearish." They were talking among themselves, dealers, men who were there I suppose for that purpose, and this gentleman who came over from the cotton exchange—he said he did, I do not know whether he did or not—said: "Gentlemen, I have the 'dope' to this effect, that it does not matter what the government report of the condition is, they (referring to the cotton exchange) are going to sell the market. They are going to sell it no matter what the report is." He made that statement. I don't know whether it was true or not. He was not a member of the New York Cotton Exchange. He had formerly been, though, of the New Orleans Cotton Exchange. He said: "The 'dope' is from down there"—pointing in that direction—this was up on Wall street where I was, and he said: "The 'dope' is they are going to sell the market, it does not matter what the report is." Another gentleman standing by, who was watching the "tape"—I do not know what function he had—said: "They are going to fill them up." I am giving you the language. I don't know what it meant. We were all standing there waiting. The report came out. It was "bullish," even beyond the guesses that had been made. The ticker began to show a rapid nervous advance, and it went up and up and up, some thirty points, and then down it went, on the toboggan slide, and this gentleman explained that there were many men who were operating on the exchange who were committed to deliveries in October to permit an advance of the future market right in front of large spot deliveries. That was what was said in my presence. I heard every word of it, and one gentleman was a member of the cotton exchange, the banking man. What did they mean by selling the market regardless of the report, and filling them up? Was that not all artificial and contrary to natural causes?

Mr. MARSH. I should say it was not only artificial, but untrue.

Mr. SIMS. I can give you the gentleman's name; you may know him personally.

Mr. MARSH. I wish you would.

Mr. SIMS. I will be glad to give you his name, but I will give it to you privately; I would not want it to go in the hearings. But you say that was not true?

Mr. MARSH. It seems to me as near like a fish story as I have heard for several days.

Mr. SIMS. Exactly what he said, and what "they," referring to the stock exchange, believed would happen, took place, the most "bullish" report—more "bullish" than was estimated by the most extreme—was published, and the market suddenly went up for a few minutes, and then went on down and down and down.

Mr. MARSH. One of the things that people in New York learn—and it makes us a little cynical——

Mr. SIMS. These were New York men I am talking about.

Mr. MARSH (continuing). As years go by, is that everything that happens in the cotton market must have a personal explanation in

order to be interesting. These newspapers that Mr. Lever brings here—the reporters of those newspapers think that in order to make their reports of the market interesting, they must give all their information a personal appearance; that they must say that so and so was operating heavily on this side, and so and so was operating heavily on that side, when, as a matter of fact, there is absolutely nothing in it at all. Anybody who trusts that kind of a statement passed around might just as well trust the New York Journal.

Mr. SIMS. Although the market seems to have gone exactly as the "dope" was given out it would go.

Mr. MARSH. The market some times goes according to the "dope," and sometimes it does not.

Mr. SIMS. You are coming to the point; it sometimes goes according to the "dope." Is it not to the interest of a large number of speculators—call them whatever you please—to give out, encourage, and even manufacture "dope" to affect the future market, and does that not correspondingly, or to some extent, affect the spot market?

Mr. MARSH. No "dope" that is not true can affect the price of cotton for more than a few hours at the outside.

Mr. SIMS. Is not a few hours enough to ruin a good many people who are betting on the market?

Mr. MARSH. No, sir.

Mr. SIMS. Have you not seen men wiped out in an hour, their margin gone? I do not mean literally broke.

Mr. LEVER. Right on that very point, you say that no "dope" can affect the market?

Mr. MARSH. No "dope" that is untrue.

The CHAIRMAN. Beyond a few hours, he said.

Mr. LEVER. No "dope" that is untrue can affect the market beyond a few hours. Let us take the illustration of Mr. Hubbard. He sends his marked letter to every paper in my State; he is believed in down there. Suppose he gives the people of the State of South Carolina to understand that the strong probability is that the market is bound to go up within a period, and, as a result of that, a number of South Carolinians buy cotton on the strength of his report or his suggestion. Would not that affect the market? Does not the market respond to buying and selling?

Mr. MARSH. It certainly does; but I said for more than a few hours.

Mr. SIMS. Right in that connection, then, that "dope" I heard given out was true, from the fact that it affected the market for a month afterwards.

Mr. MARSH. That was not what affected the market for a month, Mr. Sims; that was not what affected the market that month. The market was affected by cotton for sale and cotton to buy.

Mr. SIMS. What do you think of the reason given, that they wanted to buy spot cotton in September and October so they could not afford to let the future market go up, therefore they put their future contracts on the market in order to make spots cheaper?

Mr. MARSH. I think it is the greatest nonsense I ever heard.

Mr. SIMS. Yet it worked out all right.

Mr. MARSH, No, sir; it did not.

Mr. SIMS. They got their cotton lower.

Mr. MARSH. Then they sold their hedges lower. If cotton went down, as you say it did, for a month, then when these gentlemen bought their cotton in September and in October, they sold their hedges lower. It did not affect the spot merchant at all. There is no motive for a spot merchant to try to get the market down.

Mr. SIMS. I am talking about speculators, men who operate on your exchange or through its instrumentalities and powers. I want to ask Mr. Marsh, because he is practical, and I might say professional—this is not a proposition which I am advocating, but it has been discussed—could there be a tax levied by the United States Government upon future contracts for cotton on the New York Stock Exchange of, say, one or two or three dollars, or any arbitrary amount, per bale, collected when the purchase and sale are made, by a revenue agent right there, a record kept, and then when the month comes around, the purchaser of that contract, or whoever takes delivery of that contract—not necessarily that it should be between the original parties—receives back the money paid as a tax less 10 cents a bale; would such discriminatory tax as that eliminate the speculator to whom we have just referred, and yet retain all the benefits of the market to the merchant or the purchaser, or whoever has a real interest in the market for actual cotton? Is it possible for such a scheme to work as I have indicated?

Mr. MARSH. A contract for the delivery of cotton in New York is no different from a contract for the delivery of cotton in Memphis, Tenn., or a contract for the delivery of cotton in Atlanta, Ga., or a contract for the delivery of cotton in Galveston, Tex. I believe we are guaranteed that no tax laid by the Government of the United States shall be discriminatory. You can not draw a law taxing contracts for future delivery in New York that will not apply to every contract for the future delivery of cotton in every market in the United States.

Mr. SIMS. We can limit it to exchanges, trades made in exchanges.

Mr. MARSH. No, sir.

Mr. SIMS. We can tax such transactions—it has been done, has it not?

Mr. MARSH. It was acceded to by the exchange during the Spanish-American war, but no member of the exchange, and no lawyer connected with the exchange, had any doubt whatever as to the absolute unconstitutionality of this act.

Mr. SIMS. You are getting away from what I am asking. Take it that it is legal. If it could be put in practical operation, would it eliminate the pure speculator, who will have the temptation to falsify facts in order to make money out of the contracts before the date of the execution of the contract arrives, so as to avoid the injury that such transactions may cause, if any, upon the real commercial conditions of the cotton industry of any kind or character? Is it practicable? Could it be carried out? You know Mr. Smith refers to that.

Mr. MARSH. I do not know what might be carried out.

Mr. SIMS. Say it is lawful, could it be administered, and would it have the effect of eliminating purely speculative transactions?

Mr. MARSH. I do not see how I can answer that.

Mr. SIMS. I did not know but what you could give an opinion. I am not advocating such a law, but it is suggested by Mr. Smith,

and I wanted your opinion as a practical man to say whether such a thing could be done and what the effect would be. The present bill does not deal with that subject at all.

Mr. HUBBARD. Mr. Chairman, may I ask the witness one question?

Mr. BURLESON. I have a few other questions if Mr. Marsh is through.

Mr. HUBBARD. My question was just this, Mr. Chairman, and you can submit it or not, as you see fit, the question as to the benefit of the speculator to mankind and the cotton trade in general. The effect of this ruling upon contracts has been passed upon by the Supreme Court, and Mr. Marsh has the decision there, and the remarks of the presiding justice. I think I would like to have him read it.

Mr. BURLESON. Do you mean Christie against the Board of Trade of Chicago?

Mr. HUBBARD. Yes.

Mr. BURLESON. We are familiar with that.

Mr. MARSH. If the members of the committee would permit, I should like to submit this for the record.

The CHAIRMAN. If you have a brief statement of it there, you can just append it to the hearing.

(The decision referred to will be found in the appendix.)

Mr. BURLESON. Mr. Chairman, I have just a few questions I want to ask Mr. Marsh, but before I ask him any question at all I want to inquire this: The other day, when you started your testimony, Mr. March, you covered one phase of the question and then expressed a willingness to submit to interrogation.

Mr. MARSH. Yes, sir.

Mr. BURLESON. There are certain phases of this question which I should like to interrogate you about and which you have not touched at all.

Mr. MARSH. Yes, sir.

Mr. BURLESON. Do I understand that you have concluded your presentation of this matter to the committee?

Mr. MARSH. I was hoping, Mr. Chairman, to have an opportunity to make another comparatively brief, general statement in regard to certain other aspects of the question, and then once more to be cross examined upon that.

The CHAIRMAN. Can you state briefly the aspects you would like to discuss?

Mr. MARSH. I wished in particular to state to the committee——

Mr. BURLESON (interrupting). Advantages of the fixed differences.

Mr. MARSH. That was incidental.

Mr. BURLESON. And the range of grades deliverable under the contracts?

Mr. MARSH. Yes. To discuss, in short, the report of the Commissioner of Corporations and the action which the New York Cotton Exchange has entered upon as a result of that report. It is rather late for me to start upon that this afternoon.

Mr. BURLESON. As I understand it, Mr. Chairman, that is the very crux of this matter, and I would prefer for Mr. Marsh to conclude what he desires to say upon those two subjects before I cross-examine him. My cross-examination is going to be very brief, but I would like to have him conclude what he has to say.

Mr. Sims. Mr. Marsh is undoubtedly tired, and we ought to let him go over until morning.

The Chairman. Can you give us an idea about how long it will take you to conclude?

Mr. Marsh. I should say fifteen or twenty minutes, but I should much prefer, if the chairman will permit me, to make that statement in the morning.

The Chairman. We realize you have had a long siege this afternoon, and we certainly do not want to impose upon your good nature, and I think, then, we will adjourn now.

Mr. Marsh. Will the chairman permit me to make one brief statement to the committee; it will not take long? My reason for asking this permission is that on Friday evening, after having already spoken to the committee, a member of the committee rather charged me with juggling with words in what I had said to the committee. This charge was not made in any captious or unpleasant way, but this member of your committee said to me that what I had said to the committee in regard to the method of delivering cotton in fulfillment of these contractual obligations which had been entered into seemed to him to be nothing but juggling with words. Naturally I was somewhat disturbed at having made that impression. I assured the member of the committee that what I have said was, to the best of my knowledge and belief, actually and specifically exact; that perhaps the appearance of juggling with words which he felt my remarks bore was due to the very fact that I was using words as specifically and exactly as I knew how, but I certainly should feel very great regret if members of the committee should have the impression that, in describing the method of fulfilling this multiplicity of contractual obligations which the operation of hedging gives rise to, I was juggling with words. Perhaps my pride was touched a little bit by the fact that this member of your committee said he did not see why a stock of bricks would not do just as well to fulfill these contractual obligations as a few thousand bales of cotton in the port of New York. I have been thinking, more or less, a good deal about this suggestion or criticism of my remarks since the meeting of the committee, and I have been anxious to find some way to make clear to the members of the committee that these contractual obligations which are fulfilled in the way in which I described are in every legal and moral sense of the word fulfilled, and fulfilled with actual cotton.

May I venture to call the attention of members of the committee to the fact that this system of future trading, which, as Mr. Lever very properly elicited from me, began in a speculation mainly in Liverpool, gradually developed into something a great deal wider and economically more important than speculation. One of the difficulties which we have to overcome in explaining this matter is that the political economists who have discussed the question of speculation and of hedging have got it in its past, in its still undeveloped stage, and if you read Mr. Emory, for instance, whose treatise on speculation on the stock and grain exchanges of the United States, or produce exchanges of the United States, is perhaps as much quoted as any other treatise on the subject, you will find that Professor Emory, of Yale University, has got this trading in futures in its early stages, and has interpreted it in accordance with what men then thought it

was; because, unquestionably, in its early stages the whole theory was that this hedging gave an opportunity to unload the risks of the merchant upon a distinct speculative class. You will find in all the treatises on that subject, all the works of the political economists, that that is what they say, that trading in futures affords the merchant an opportunity to get rid of his risks and throw them on a speculative class. And I may say that Mr. Herbert Knox Smith is fully imbued with that idea, and that that obsession of his practically vitiates every word he says about hedging in his whole report. There is not a word of Mr. Herbert Knox Smith on the subject of hedging in that report that is worth anything. It is all ancient history; it is all gone.

Now, Mr. Chairman, since the development of this system of hedging and the proportions which it has attained particularly during the past ten or fifteen years, it has become clear to those who really study what has happened, study the facts as they come up in actual business, that the operation of hedging is only to a small extent an operation by means of which the risks of the merchant are unloaded upon a distinct class of speculators. To anybody who studies the business as it really comes up in the exchange itself it very speedily becomes apparent that hedging is simply a method of distributing the total risks over the whole world; that it is a complex of credit operations by means of which the risk involved in distributing a crop like the cotton crop is finally carried back into Manchuria, carried into India, carried to South Africa, carried to Australia, carried all over the world, and is so subdivided finally, little by little, that it reaches the ultimate consumer. That is what hedging is, as the facts come up to you in actual business, as you see and study and analyze the actual business that is coming into the exchange, and in that complex body of credit operations which we know as hedging, the speculator comes only spasmodically. In a year like this he comes in on a great scale, and a large part of our transactions for weeks at a time are transactions with the speculator on one side and the merchant on the other. But, Mr. Chairman, we have months at a time when the speculator is not there at all, and yet we go right on hedging; the transactions go right on months at a time, when nobody who knows the business could think for a moment that the risks were being unloaded upon a special class of speculators. They are not being unloaded; they are being distributed until they finally get small enough, and the advances or declines get to be of such moderate proportions that nobody is hurt.

One more point and I am through. The whole economic philosophy of this hedging business as it is conducted in a great exchange like New York is absolutely identical in its true theory with the theory of banking and the currency. If you understand the theory of banking and the currency you can understand the economic theory of hedging, and when you once understand it, then you will understand that just as in the matching of old credits and the gradual liquidation of those old credits until finally only an infinitesimal amount of legal money has to be used, so in the matching of these innumerable hedging credits, playing in and out and back and forth all the time, you finally get to a point where a few thousand bales of actual cotton passed from hand to hand fulfill morally and fulfill physically all the contract obligations that have been entered into. That, I say, Mr. Herbert Knox Smith has not a glimmering of in his report where he touches on the subject of hedging. To any-

body who has actually watched and studied, the facts as the naturalist studies the phenomena of nature, the report, as far as that is concerned, is not worth considering; it is hopeless, absolutely hopeless.

Mr. BURLESON. Yet he says that is the only justification of the existence of the exchanges, the hedging facilities.

Mr. MARSH. That is his opinion.

(Thereupon, 4.20 o'clock p. m., the committee adjourned until to-morrow, Tuesday, February 15, 1910, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, February 15, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott in the chair.

The CHAIRMAN. Before proceeding with the hearing this morning, I should like to suggest to gentlemen asking questions of the witness that as far as possible they abstain from purely hypothetical questions, the answers to which in the nature of the case can be nothing more than conjectures. The purpose of the committee is, as far as possible, to elicit information of a direct and explicit character upon which the committee can form its own judgment.

I believe Mr. Marsh was to resume the stand this morning and discuss briefly some phases of the business of the cotton exchange which he has not yet touched upon.

Mr. BURLESON. Before Mr. Marsh proceeds, I desire to ask permission to embody in the hearings, immediately following the decision of the Supreme Court of the United States in the case of the Board of Trade of the city of Chicago *v.* the Christie Grain and Stock Company, a brief discussion of the law laid down by the Supreme Court in that case. My purpose is to show that the principles of law laid down in the case of the Board of Trade *v.* Christie in no way conflict with the principles embodied in the Scott bill, and I think it is only right that immediately following the decision this brief discussion of the law as outlined in that decision be embodied in the record.

The CHAIRMAN. Is there any objection to the request of Mr. Burleson?

Mr. MENDELBAUM. Have we not a right to know, first, what that is?

Mr. BURLESON. I am perfectly willing, so far as I am concerned, to hand this discussion over to the gentlemen and let them read it at their leisure.

The CHAIRMAN. Suppose we do that now. I dislike to interrupt the proceedings in order to have it read publicly.

UNITED STATES SUPREME COURT DECISION.

On May 8, 1905, in a suit of the board of trade of Chicago, against the Christie Grain and Stock Company and C. C. Christie, to restrain the latter as a "bucket shop" from using the Chicago Board of Trade quotations, the United States Supreme Court rendered a most important decision. For the first time the highest court in this country directly expressed itself in regard to the absolute legality of contracts for future delivery as traded in on the various regularly organized commercial exchanges. We append hereto an extract from that opinion, No. 224 and No. 280, Mr. Justice Holmes delivering the opinion:

"As has appeared, the plaintiff's chamber of commerce is, in the first place, a great market, where through its eighteen hundred members, is transacted a large part of

the grain and provision business of the world. Of course, in a modern market contracts are not confined to sales for immediate delivery. People will endeavor to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices and providing for periods of want. It is true that the success of the strong induces imitation by the weak, and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn. But legislatures and courts generally have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such coarse attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being are harmful and vain. This court has upheld sales of stock for future delivery and the substitution of parties provided for by the rules of the Chicago Stock Exchange. *Clews* v. *Jamieson*, 182 U. S., 461.

"When the Chicago Board of Trade was incorporated we can not doubt that it was expected to afford a market for future as well as present sales, with the necessary incidents of such a market, and while the State of Illinois allows that charter to stand, we can not believe that the pits, merely as places where future sales are made, are forbidden by the law. But again, the contracts made in the pits are contracts between the members. We must suppose that from the beginning as now, if a member had a contract with another member to buy a certain amount of wheat at a certain time and another to sell the same amount at the same time, it would be deemed unnecessary to exchange warehouse receipts. We must suppose that then as now, a settlement would be made by the payment of differences, after the analogy of a clearing house. This naturally would take place no less that the contracts were made in good faith for actual delivery, since the result of actual delivery would be to leave the parties just where they were before. Set-off has all the effects of delivery. The ring settlement is simply a more complex case of the same kind. These settlements would be frequent, as the number of persons buying and selling was comparatively small.

"The fact that contracts are satisfied in this way by set-off and the payment of differences detracts in no degree from the good faith of the parties, and if the parties know when they make such contracts that they are very likely to have a chance to satisfy them in that way and intend to make use of it, that fact is perfectly consistent with a serious business purpose and an intent that the contract shall mean what it says. There is no doubt, from the rules of the board of trade or the evidence, that the contracts made between the members are intended and supposed to be binding in manner and form as they are made. There is no doubt that a large part of those contracts is made for serious business purposes. Hedging, for instance, as it is called, is a means by which collectors and exporters of grain or other products, and manufacturers who make contracts in advance for the sale of their goods, secure themselves against the fluctuations of the market by counter contracts for the purchase or sale, as the case may be, of an equal quantity of the product, or of the material of manufacture. It is none the less a serious business contract for a legitimate and useful purpose that it may be offset before the time of delivery in case delivery should not be needed or desired.

"Purchases made with the understanding that the contract will be settled by paying the difference between the contract and the market price at a certain time (Embrey *v.* Jemison, 131 U. S., 336; Weare Commission Co. *v.* People, 209 Ill., 528) stand on different ground from purchases made merely with the expectation that they will be satisfied by set-off. If the latter might fall within the statute of Illinois, we would not be the first to decide that they did when the object was self-protection in business and not merely a speculation entered into for its own sake. It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in this country are to be regarded as mere wagers or as 'pretended' buying or selling, without any intention of receiving and paying for the property bought, or of delivering the property sold, within the meaning of the Illinois act. Such a view seems to us hardly consistent with the admitted fact that the quotations of prices from the market are of the utmost importance to the business world, and not least to the farmers; so important, indeed, that it is argued here and has been held in Illinois that the quotations are clothed with a public use. It seems to us hardly consistent with the obvious purposes of the plaintiff's charter, or indeed with the words of the statute invoked. The sales in the pits are not pretended, but, as we have said, are meant and supposed to be binding. A set-off is in legal effect a delivery. We speak only of the contracts made in the pits, because in them the members are principals. The subsidiary rights of their employers where the members buy as brokers we think it unnecessary to discuss.

"In the view which we take, the proportion of the dealings in the pit which are settled in this way throws no light on the question of the proportion of serious dealings for legitimate business purposes to those which fairly can be classed as wagers or pretended contracts. No more does the fact that the contracts thus disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set-off sufficiently explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money, many of which in like manner are set-off in clearing houses without any one dreaming that they are not paid, and for the rest of which the same money suffices in succession, the less being needed the more rapid the circulation is."

The gentlemen may look it over; and without objection it will be inserted at the place requested, immediately following the Supreme Court decision.

Mr. LEVER. I understand, Mr. Chairman, that this is a discussion of that decision by the gentleman from Texas, Mr. Burleson?

The CHAIRMAN. That is my understanding.

Mr. MENDELBAUM. You have ruled that it will go in if we have no objection after we have read it?

The CHAIRMAN. It will go in if there is no objection on the part of the committee.

Board of Trade of the City of Chicago *v.* Christie Grain and Stock Company, 198 U. S., 236.

The Chicago Board of Trade was incorporated under the laws of Illinois. It maintained an exchange hall for its members where they made sales and purchases of grain and provisions exclusively for future delivery. The quotations of prices offered and accepted on the exchange during business hours were collected by the board of trade and handed to the telegraph companies, which had their instruments close at hand and sent the quotations to the board's offices, many in number. The telegraph companies received the messages under contract not to furnish them to bucket shops or other places for use in bets, for illegal contracts, or to persons not approved by the board of trade. This amounted to a confinement of the quotations to patrons of the board of trade.

The Christie Grain and Stock Company, in some way not disclosed by the testimony, procured the quotations and used them in its business of maintaining a bucket shop. The board of trade brought an action to restrain the Christie Grain and Stock Company from using and distributing these quotations. The defendants resisted the injunction, principally upon the alleged ground that the board of trade was itself, and in defiance of the laws of Illinois, maintaining the greatest of bucket shops, wherein was permitted the pretended buying and selling of grain and provisions without any intention of receiving and paying for the property so bought, or of delivering the property so sold, and that therefore the quotations could not have been legitimate property in respect to which complainants were entitled to the relief sought.

It appeared from the testimony that much the larger portion of the transactions on the exchange involved no physical delivery of any grain, but that settlements could be made on the basis of set-offs, which consisted in setting off contracts to buy wheat of a certain amount at a certain time, against contracts to sell a like amount at the same time, and paying the difference of price in cash, at the end of the business day.

The circuit court of appeals for the eighth circuit decided that the quotations in question were so intimately connected with gambling transactions, held by the court to be within the terms of the Illinois statute, that the board of trade could not invoke the jurisdiction of equity to protect them from use by other parties. From this decision the board of trade removed the case to the Supreme Court upon a writ of certiorari, where it was held that notwithstanding the source of the quotations they were property and were entitled to protection in the hands of the board of trade. The injunction was therefore directed to be granted.

In the course of the opinion occurs the significant language:

"If then the plaintiff's collection of information is otherwise entitled to protection, it does not cease to be so, even if it is information concerning illegal acts. The statistics of crime are property to the same extent as any other statistics, even if collected by a criminal who furnishes some of the data."

It was upon this, and upon no other theory of the case, that the injunction was granted.

The court investigated, however, the good faith of the transactions on the exchange and concluded that as conducted there, they were not inconsistent with a legitimate business purpose and that as a general proposition there could be nothing harmful to trade and commerce in the bona fide purchase of grain for future delivery and the subsequent sale of the same amount, the transaction being settled upon the basis of the difference in price at the time of the purchase and sale.

That such was the opinion of the court is plainly evidenced by the following language in the opinion:

"The fact that contracts are satisfied in this way by set-off and payment of differences detracts in no degree from the good faith of the parties, and if the parties know when they make such contracts that they are very likely to have a chance to satisfy them in that way and intend to make use of it, that fact is perfectly consistent with a serious business purpose and an intent that the contract shall mean what it says. There is no doubt, from the rules of the board of trade, or the evidence, that the contracts made between the members are intended and supposed to be binding in manner and form as they are made. There is no doubt that a large part of those contracts is made for serious business purposes. Hedging, for instance, as it is called, is a means by which collectors and exporters of grain or other products, and manufacturers who make contracts in advance for the sale of their goods, secure themselves against the fluctuation of the market by counter contracts for the purchase or sale, as the case may be, of an equal quantity of the product, or of the material of manufacture. It is none the less a serious business contract for a legitimate and useful purpose that it may be offset before the time of delivery in case delivery should not be needed or desired."

Then the court distinguishes between purchases made with the understanding that the contract will be settled by paying the difference between the contract and the market price at a certain time (which were held in Embrey *v.* Jemison, 131 U. S., 336, to be gambling contracts and unenforceable), and purchases made merely with the expectation that they will be satisfied by set-off; tacitly reaffirming Embrey *v.* Jemison and intimating that the latter forms of contracts were not necessarily prohibited by the statute of Illinois and that such contracts were not devoid of merit "when the object was self protection in business and not merely a speculation, entered into for its own sake." It was further said in the opinion—and this plainly presents the view of the court that the transaction in the board of trade did not contemplate mere wagers or pretended buying and selling without intention of receiving and paying for the property—that:

"It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in this country are to be regarded as mere wagers or as "pretended" buying or selling, without any intention of receiving and paying for the property bought, or of delivering the property sold, within the meaning of the Illinois act."

That the court was fully impressed with the fact that legitimate and enforcible contracts, and not speculations on the future prices of grain where no acceptance or delivery was intended, were the objects of transactions on the board of trade, is further manifested by the following language:

"In the view which we take, the proportion of the dealings in the pit which are settled in this way throws no light on the question of the proportion of serious dealings for legitimate business purposes to those which fairly can be classed as wagers or pretended contracts. No more does the fact that the contracts thus disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set off sufficiently explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money, many of which in like manner are set off in clearing houses without any one dreaming that they are not paid, and for the rest of which the same money suffices in succession, the less being needed the more rapid the circulation is."

A comparison of the foregoing decision with the provisions of H. R. 67, "A bill to prohibit interference with commerce among the States and Territories and with foreign nations, and to remove obstructions thereto," discloses no conflict whatever in the law applicable to each. H. R. 67 in no way whatever, either in terms or spirit, hinders or obstructs legitimate transactions for future delivery of cotton, nor indeed in the settlement between seller and purchaser at a future date upon the basis of the difference in price, if subsequent events should warrant the parties in so doing.

It is wholly and entirely based upon the theory of those illegal speculations in cotton futures where no delivery or receipt of the cotton is ever intended, and which have been denounced as gambling contracts in so many decisions, both federal and state, that it is useless here to enumerate them.

It applies to contracts for future delivery of cotton the test of that wholesome, equitable, and well-known principle of law that there shall be mutuality of right in requiring an honest fulfillment of the terms of the contract; that is, that the seller shall have the right to require the purchaser to accept the cotton, and that the purchaser shall enjoy the reciprocal right to require the seller to deliver the cotton. To admit that any other principle should govern these contracts is to acknowledge at once that they are gambling contracts within the denunciation of both the common law and numerous statutes. And further, the bill deals with telegraph and telephone messages respecting that class of contracts universally declared by the courts to be illegal, and if its terms should be misconstrued and perverted so as to attempt its enforcement upon lawful transactions it would be the error of the Government, not the mischief of the bill. A complete defense is made to anything in this bill when the party prosecuted establishes the legitimacy and good faith of his transaction. The telegraph and telephone companies are completely protected when they require the senders and recipients of messages respecting contracts for future delivery of cotton to furnish them with the affidavits provided for in the bill.

It would seem unnecessary in this discussion to review the numerous decisions of the courts pronouncing void contracts for the sale and purchase of commodities where no delivery or acceptance is in the contemplation of the parties, but merely a settlement upon the basis of the differences in prices at some future day. The citation of Embrey *v.* Jameson (131 U. S., 336), should be sufficient at this day to set the matter at rest. It was there decided:

"A contract for the purchase of 'future-delivery' cotton, neither the purchase nor delivery of actual cotton being contemplated by the parties, but the settlement in respect to which is to be upon the basis of the mere 'difference' between the contract price and the market price of said cotton futures, according to the fluctuations in the market, is a wagering contract and illegal and void, as well under the statutes of New York and Virginia, as generally in this country."

It is a most significant fact that in the case of the Board of Trade of Chicago *v.* Christie Grain and Stock Company not one syllable is to be found denying or in the remotest degree questioning the soundness of the decision in Embrey *v.* Jameson. This is sufficient to overthrow any argument that that case held such contracts to be lawful and legitimate. And further, not one of the numerous cases, either federal or state, denouncing such transactions is cited in that opinion for the purpose of predicating upon it an unfavorable comment by the court. It would be so extraordinary for the court to reverse all these decisions without some allusion to even one of them, that such an intention can not be imputed to it. It lies on the face of the decision that no such intention was in the minds of the justice who wrote the opinion and those who concurred in it.

In the opinion in the case of Board of Trade *v.* Christie Grain and Stock Company, at p. 248, occurs this language:

"This court has upheld sales of stock for future delivery and the substitution of parties provided for by the rules of the Chicago Stock Exchange. Clews *v.* Jamieson (182 U. S., 461)."

Turning to the case of Clews *v.* Jamieson, it is found that in that case there was a bona fide contract to sell stock and that there was no understanding whatever between the parties that it should be fulfilled by payments of the difference between the contract and the market price at the time set for delivery. The conclusions of the court are contained in the following syllabus:

"It plainly appears in this case from the pleadings that the sales and purchases of stock were in fact made subject to the rules of the stock exchange, and all the transactions regarding the sales and purchases must be regarded as having taken place with direct reference and subject to those rules.

"A contract, which is on its face one of sale, with a provision for future delivery, is valid, and the burden of proving that it is invalid, as being a cover for the settlement of differences, rests with the party making the assertion.

"There is nothing in these contracts which shows that they were gaming contracts and in violation of the statutes of Illinois; and there is no evidence that they were entered into pursuant to any understanding whatever that they should be fulfilled by payments of the difference between the contract and the market price at the time set for delivery."

The very rules of the stock exchange under which the contract of sale was made excluded fictitious sales and provided that any member of the exchange who wa interested in or associated with, or whose office was connected directly or indirectly by wire or other contrivance with any organization, firm, or individual engaged in the business of dealing in differences or quotations on the fluctuations in the market

price of any commodity or security without a bona fide purchase and sale of said commodity or security in regular market or exchange, should be deemed to have committed an act detrimental to the interest and welfare of the exchange and should be suspended.

It can not be disputed that a contract for the future delivery of commodities even not at the time in the possesion of the seller or even though not in existence at the time the contract is made is valid and enforcible. But this falls far short of sustaining the proposition that such contracts where there is no intention of delivering or even of acquiring the property to deliver and where the contract is to be settled upon differences in prices are valid and enforcible. The second paragraph of the last syllabus plainly distinguishes between the two.

The argument that H. R. 67 is contrary to the decision in Board of Trade *v.* Christie Grain and Stock Company is based upon a willful failure to distinguish between contracts, on the one hand, for bona fide sales of commodities to be delivered in the future, or to be settled, if the parties subsequently decide to so discharge their obligations, by payment and acceptance of the losses by decline in the market—the only basis for recovery if suit were instituted for damages—and contracts, on the other hand, for the ostensible, but unreal, purpose of settling the contract by payment of differences in prices at the time delivery is due.

It is with the latter sort of contracts that the bill deals and that it is a valid and useful exercise of the power of Congress to protect commerce from the evils of an unlawful practice can not be successfully denied.

H. R. 67 in none of its provisions prohibits the settlement of contracts for future delivery of cotton, on the basis of set-offs, when the parties at the inception of the contract intended in good faith to fulfill its obligations, but subsequently decide to adjust their agreement by payment of differences in the contract price and the price of the cotton on the date delivery is due.

TESTIMONY OF MR. A. R. MARSH—Continued.

Mr. Marsh. Mr. Chairman, what I should like to talk about, briefly, is the situation which has developed, primarily in connection with the New York Cotton Exchange, but in reality in connection with all use of contracts for future delivery, by reason of the extensive report of the Commissioner of Corporations upon the cotton exchanges of the country.

The New York Cotton Exchange, ever since its organization, being composed (as I have said to the committee) of cotton merchants, has been keenly solicitous that its rules and regulations should be just and fair, and responsive to the actual requirements of the cotton trade as conducted by merchants. This was shown very early in its history. When the New York Cotton Exchange was first organized, its by-laws and rules were to a large extent a reflection of the by-laws and rules of the Liverpool Cotton Association, which was formed somewhat before the New York Cotton Exchange. The Liverpool Cotton Association had framed its contract for future delivery in such a way as to limit the deliveries of cotton to grades from low middling up. It was not many years after the New York Cotton Exchange was organized before the cotton producers of the South generally represented to the members of the New York Cotton Exchange that they were producing cotton below low middling in grade, and that it was an injustice to them that these lower grades of cotton should not be tenderable upon contracts in New York. In response to those representations from cotton producers, and convinced by their study of the cotton business that it was a just and proper step to take, the New York Cotton Exchange widened the range of deliveries, and admitted to them these grades of cotton which were produced in the South, which had to be handled by merchants, which had to have a market; and from that time to this the

grades of cotton deliverable in New York have represented the cotton crop as nature produces it, and as the producers have to dispose of it.

From the time of the organization of cotton exchanges and the framing of rules and regulations under which the business should be conducted, a point of controversy constantly agitated has been the method of determining the valuation of grades of cotton other than middling. The cotton crop consists of a large number of grades. Middling cotton makes up only a small portion of any crop. In framing a contract for future delivery, all the exchanges made middling cotton the starting point in reckoning the money value of the hundred bales delivered on a contract. But as the proportion of middling cotton in any crop was necessarily small, and as other grades had to be delivered, there immediately arose the question as to the valuation of these other grades for delivery purposes.

The Liverpool Cotton Association, being primarily a market for buyers and consumers of cotton, had framed its rules with regard to this complex and controversial subject in such a way as to be favorable to buyers and consumers. The method adopted in Liverpool was that the different grades of cotton, when delivered, should be valued at their market value on the day of delivery. This method of valuing these different grades is what has recently come to be termed the "commercial difference" method. I say, this principle was adopted first in Liverpool, which was a buyers' and consumers' market; and it was favorable to buyers and consumers of cotton because it gave an opportunity, in case grades that were sent forward from the United States for delivery became temporarily overabundant, to change the difference before that cotton arrived in Liverpool, and save the buyer and the consumer any temporary market decline in the value of that cotton.

Both of the American exchanges adopted this same principle, taking it from Liverpool, in the early stages of their history. I may say at this point that during the early period of the history of the cotton exchanges the theory of these operations was very imperfectly understood. The whole thing has been a kind of organic development. It is only little by little that the most expert merchants have been able to penetrate to the real principles underlying the conduct of their business. And this method of treating the valuation of the different grades when delivered on contract was not closely studied in all of its ramifications and in all the results that it would produce.

As time went on it was found that this method of valuing the different grades gave rise to constant controversies and gave opportunities for certain abuses. For example, if a large operator was going to take delivery of a large amount of cotton and had reason to suppose that a good deal of that cotton would be of certain specific grades, it was easy for him to produce the impression through the market that those grades were overvalued and that they ought to be reduced in value. The methods by which this manipulation (as it is called) was accomplished were of course various. I am not saying that in many cases the operator himself may not have been convinced in his own mind of the correctness of his position. When a man has a large pecuniary interest at stake, it is very difficult for him to prevent his mind from being affected by that which he would like to see come to pass. To such an extent is this true that one of the members of the New York Cotton Exchange, whom I believe we all regard as the man

who can look himself squarest in the face of all the members of the exchange, has said to me repeatedly that he is unable, when he has an interest, to exercise a calm and unbiased judgment.

The controversies occasioned by this method of arriving at the valuation of the different grades finally resulted in a feeling in the New York market that there was something essentially wrong, something essentially unjust and unfair, in making it possible or leaving it possible for influences which might prove a little later not to have been based upon real market conditions to affect this very important matter. And so, in 1897, the New York Cotton Exchange decided that it would abandon that method of arriving at the valuation of the different grades of cotton, and, instead, would have a valuation of these grades made only twice a year, in September and in November, leaving the valuation to a large committee of seventeen men who should determine, as far as human wisdom could determine, the valuation that should be placed upon the different grades for each particular crop.

This system, adopted in 1897 by the New York Cotton Exchange, was obviously open to one criticism—the criticism that it was and is illogical. If you are going to value your different grades twice a year, no logical reason can be advanced why you should not value them three times a year; and if three times a year, why you should not value them four times a year. On the other hand, if you are going to cut down the valuations to twice a year, no logical reason can be advanced why you should not cut them down to once a year; or, if you are going to cut them down to once a year, why you should not make your valuation once and for all, and let it stand.

As I say, these were the logical objections that might be advanced and may still be advanced against the method which the New York Cotton Exchange adopted in 1897. All that can be said in defense of the illogical position which the New York Cotton Exchange took is that in affairs of this kind, as you gentlemen all know, complete logicality is always slow to be obtained. The whole history of the English race is the history of illogical conclusions. It is the history of men seeing something wrong and taking a step toward the correction of it. The New York Cotton Exchange saw that something was wrong, and it took a step toward the correction of it. And the system adopted in 1897, in spite of its illogicality, was a step toward the establishment of a defensible principle in connection with the valuation of the different grades of cotton deliverable on contracts.

This system worked well in the New York Cotton Exchange from 1897 down to 1906. The old complaints of manipulations and abuses, the old irritations which had arisen out of men's feeling a sense of injustice done them, ceased. But in 1906 a situation arose which brought this whole question once more upon the carpet. In the end of September, 1906, there came a storm covering a very large part of the cotton-producing area of the South; and in a night the relative proportions of the high and the low grades of cotton in that crop were completely reversed. In a night a crop which had promised to be of the normal proportions of the high and the low grades became a crop with an abnormal proportion of the low grades and an extraordinary scarcity of the high grades.

After this storm took place it was a long time before the full significance of it became apparent even to the most expert cotton mer-

chants. We had had storms before, like the Galveston storm in 1900—storms of great power, and covering a very large amount of territory. But the Galveston storm of 1900 produced no such result upon the relative proportions of the high and the low grades of cotton as did the storm of September, 1906. The question of what should be done with the valuation of the grades deliverable upon contract became an acute one, and grew more and more acute as October and November advanced. Toward the end of November, 1906, the revision committee of the New York Cotton Exchange had its meeting, its members being fully aware of the extremely diverse opinions which various members of the exchange held with regard, first, to the actual effects of the storm, and second, with regard to what course ought to be adopted in taking care of those effects. The revision committee did not decide to do what logically it might well have been called upon to do, viz, to reduce severely the valuation of these lower grades of cotton. And so far as I can learn the chief reason why it did not exercise this discretion in the way I have described was that there was a very strong feeling that after all the valuation of the lower grades of cotton, as they had stood in the past, represented the real economic value of those different grades of cotton to the spinner.

That feeling, Mr. Chairman, was a feeling which a good many of us had very strongly. I myself had it very strongly. I was not a member of the revision committee; but I held very strongly to the opinion that there was an element of injustice involved in marking down the values of these lower grades of cotton simply because the producers of cotton in the South had suffered a grave misfortune. And it did not seem to me, personally, at that time, a just or fair thing for the cotton merchants of the New York Cotton Exchange to proceed to aggravate the trouble and distress of the producers of cotton by marking down the valuation of the only cotton that many of them had to sell. And I am obliged to say, Mr. Chairman, that on the basis of strict logic, if the principle of a revaluation were to be pushed to its logical conclusion, there should have been a considerably greater revaluation of these lower grades than actually took place. That, I think, every member of the New York Cotton Exchange will freely admit. All that can be said is that we were forming the best judgment we could, and that the considerations which actuated us were not considerations of our selfish advantage, but were considerations of the general good of the cotton trade and of the cotton producers of the country.

But as time went on, Mr. Chairman, and it became apparent that the damage done by that storm was even greater than had been believed by even the most pessimistic, it becamo also apparent that with the Liverpool Cotton Exchange and the New Orleans Cotton Exchange maintaining their old system of marking down the value of these low grades, which had become for the time superabundant, there would be a tendency to use the New York Cotton Exchange as the exclusive hedge against these large quantities of low-grade cotton. That actually took place, with the result that the value of the contract for future delivery in the New York market began to decline relatively to the price of middling cotton, and began to decline relatively to the price of the contract for future delivery in New Orleans and in Liver-

pool. Immediately, sir, there arose a tremendous outcry and very bitter criticism. Those who had been using the New York contract as a hedge against their sales of cotton to spinners, particularly their sales of the higher grades of cotton which the storm had made scarce, found the value of their hedge depreciating as compared with the cost to them of buying the grades which they had contracted to deliver. They found that their hedge was not doing for them what they had expected, and they declared roundly that the New York Cotton Exchange was responsible for their losses; that the system of the New York Cotton Exchange was unsound and uncommercial; and that the New York Cotton Exchange ought to be brought to book.

This cry, sir, was taken up all through the South; and particularly was it taken up by those persons through the South who hold the entirely erroneous opinion that the price of middling cotton is governed by the price of future contracts. It was argued that this decline in the price of future contracts in New York was occasioning heavy loss to the producers of cotton in the South; that the producers of cotton in the South were being robbed because the buyers of cotton were basing their purchases upon the price of future contracts in New York, and were consequently taking away from the cotton producer a portion of the just value of his property.

You all know, gentlemen, the outcome of this. You know the agitation which reached Congress—the agitation which led to the passage of the bill instructing the Bureau of Corporations to investigate the cotton exchanges of the country.

The Bureau of Corporations started upon this work in 1907. The representatives of the bureau came to New York, as they went throughout the South and to New Orleans. They were given every kind of information which members of the New York Cotton Exchange could afford them. They were given the opinion (which, at that time, were necessarily extremely diverse) of members of the New York Cotton Exchange with regard to the situation. The books of many members of the New York Cotton Exchange, absolutely closed to other members of the exchange, were freely put at the disposal of the representatives of the Bureau of Corporations. And finally, early in 1908, the Bureau of Corporations issued the first part of its report upon the cotton exchanges of the country.

When this first part of the report of the Bureau of Corporations appeared, it is needless to say that members of the New York Cotton Exchange eagerly read it and eagerly discussed it. They found it to contain a very large body of statistical and other material which had never before been gathered together, and which, in the hands of a competent interpreter, or as the basis for a competent interpretation of the principles of the cotton trade, was of great value and will always have great value. But, Mr. Chairman, I must frankly say that members of the New York Cotton Exchange were somewhat dazed by a certain attitude taken by the Commissioner of Corporations in writing this report. In writing the report the Commissioner of Corporations took an attitude which was somewhat novel in the history of the relations between the Government of the United States and the merchants or any body of merchants in the United States. Let me read a little of what the Commissioner of Corporations said, to indicate what it was that dazed and perplexed members of the New York Cotton Exchange.

On page xxi of Part 1, the Commissioner of Corporations says:

It is contended by many that such a return to the commercial-difference system would, because of the disadvantages of New York's location, destroy the business of the New York Cotton Exchange. There is little reason to believe that any such result would occur. However this may be, the New York Cotton Exchange, if it can not exist under a just and equitable system, has no excuse for existence at all. The present New York system of fixed differences is uneconomic, in defiance of natural law, unfair, and, like all other attempts to defy natural law, results in such complex and devious effects that the benefits of its transactions accrue only to a skilled few.

And a little later, on page xxxiii, we find the Commissioner of Corporations saying:

Moreover, the effect of a difference system upon the business of the New York market alone is not a proper basis for framing the rules of an exchange. The first consideration is that these rules shall be equitable and commercial. If the New York Cotton Exchange can not exist under such rules, then it has no right to exist at all.

Mr. Chairman, there for the first time, so far as I know, in the history of these United States of America, there reached the ears of free citizens, free merchants, using their free discretion in the conduct of their business, living in the open, with every rule and every regulation which they were employing published freely to the whole world, the voice of the bureaucrat, laying down for those free merchants a certain rule which he has determined is the only just and equitable rule for them to follow, and declaring or threatening that if they do not adopt that rule, whatever their own judgment may be, they have no right to exist.

I do not think it is generally appreciated what effect a pronouncement of that kind must necessarily have upon free citizens of the United States who are breaking no law, who are pursuing their activities in the way in which, up to the present time, free merchants and free citizens have been expected to pursue their activities.

Having seen this bureaucratic attitude of the Commissioner of Corporations, dazed and perplexed by it, the members of the New York Cotton Exchange then proceeded to examine this report to ascertain whether it had that other kind of authority, higher than the authority of a government official—the authority of large and sound knowledge of the facts, of judicious discrimination in the use of the facts, and of wise deduction from the facts.

When we came to examine the report from this point of view, Mr. Chairman, we could not see that there was in the report authority of an imperative and compulsive kind. We found, sir, that although the Commissioner of Corporations had collected most carefully a large mass of material, yet that here and there throughout the pages of the report there occurred such obvious misinterpretations of fact, such constant misplacing of emphasis upon facts, such readiness to jump at conclusions, and, worst of all, such befuddlement in the elucidation of the principles which the Commissioner of Corporations himself was trying to lay down, that the report did not have for us that kind of intellectual authority which I have described. Let me set forth a little the kind of thing that made those members of the New York Cotton Exchange who gave careful study to this matter hesitate to accept offhand the conclusions and the monitory instructions of the Commissioner of Corporations.

In the first place, we found that the Commissioner of Corporations had, from the very start, neglected the most obvious and the most

fundamental principle in dealing with the situation, viz, that the New York Cotton Exchange is an association of cotton merchants. That fundamental fact, which I have tried to lay before the committee, was completely obscured in all the discussions of the Commissioner of Corporations. The complaints of spinners who wished to use the New York Cotton Exchange as spinners and not as merchants were accepted as a sound basis for the conclusions of the Commissioner. The complaints of speculators, who would have liked a contract suited to their particular ends, were given the same weight as the statements of the most responsible merchants in the association. And, throughout, this vital and fundamental distinction was entirely obscured and overlooked.

Then we found, sir, running through the report, a most extraordinary confusion of terms. We found the Commissioner of Corporations constantly talking about "spot cotton" when he meant "middling cotton." To him the price of spot cotton is always the price of middling cotton. The only figures he himself gave in his report as to the proportions of middling cotton in any crops of cotton indicated that in one crop there was 19 per cent of middling, and in the other crop which he discussed there was 29 per cent of middling. All the rest of the cotton in those crops, on his own figures, was not middling cotton. And yet spot cotton in the whole report of the Commissioner of Corporations is middling cotton—19 per cent in that one crop, and the other 81 per cent of the crop is not spot cotton at all.

Mr. Chairman, we found statements which would probably seem to members of this committee comparatively insignificant, but which to cotton merchants like ourselves had a great deal of significance, as indicating the genuineness of the knowledge of the Commissioner of Corporations about the subject that he was treating. For example, we find him saying that the permissibility to deliver low grades of cotton has this result. In Part II of his report, page xv, he says:

> In the third place, the producer is encouraged to grow and pick a low quality of cotton.

Mr. Chairman, you know the old Latin saying, "Ex pede Herculem"—you can tell whether or not a man is Hercules by looking at his foot; you do not have to look at his whole body. And when, running through the report, we found first this and then that statement of the character that I have just read, we thought we had a view of the foot, and that it was by no means the foot of Hercules. [Laughter.]

Yet, Mr. Chairman, here was what purported to be an exhaustive examination of the business of the New York Cotton Exchange, with deductions very unfavorable to the New York Cotton Exchange. And the New York Cotton Exchange is not a body of merchants who will simply throw off criticisms of this kind and disregard them. As soon as the report had been digested, the New York Cotton Exchange appointed a committee, of which I had the honor to be chairman, to make an exhaustive investigation of these conditions which were reported upon so unfavorably by the Commissioner of Corporations. It was decided from the start to invite the Commissioner of Corporations to have a representative present at every meeting of the committee. It was decided at the start to submit to the Commissioner of Corporations the record of every meeting of the committee, and every scrap of evidence that the committee might obtain from any source.

The committee held nearly 60 extensive hearings. It had before it approximately 100 different persons interested in the cotton trade. It had before it members of the New York Cotton Exchange, members of the Liverpool Cotton Exchange, members of the New Orleans Cotton Exchange, spinners in considerable number, representatives of the cotton producers (among them Mr. Harvie Jordan, and Mr. Sumners, who has already appeared before this committee); it received letters and reports from Europe, and from spinning centers in this country, and it studied the situation as carefully as it could.

All this mass of material, Mr. Chairman, without exception, was submitted to the Commissioner of Corporations; and at a very large number of meetings a representative of the Bureau of Corporations was actually and physically present. Furthermore, after the committee had heard a large number of witnesses, the Commissioner of Corporations himself was invited to a conference, and did, in New York, confer with the committee of the New York Cotton Exchange; and there he was given an opportunity to understand the real difficulties which we found in our path. The Commissioner of Corporations has here in Washington at the present moment, I suppose, the complete record of all these proceedings.

These numerous and prolonged meetings were devoted to ascertaining, as far as we could, the real underlying principles of our business, the accuracy of the criticisms which had been passed upon us, the validity of the suggestions that were made to us, and the real scope and bearing—not on the immediate present, but upon the whole range of our business, now and for years to come—of what we were urged to do. And I do not hesitate to say that all of us, including myself, who had given an unusual amount of study to the subject, found that at the start we were practically only groping into it. The complexities of the subject were so great, the possibilities of unsuspected damage if we did this or that were so great, that it was only by slow degrees that our minds took any determinate set.

That committee continued its hearings until early in 1909; and then it found it desirable to obtain certain information which I shall describe in a moment, which it found great difficulty in obtaining, and which it has been slowly obtaining since. Toward the end of 1909 the Commissioner of Corporations issued the final part of his report; and that final part of his report (this bulky volume) is, as is evident to anyone who knows what I have been describing to the committee, mainly taken up with the discussion of matters that were brought out in the hearings of the committee of the New York Cotton Exchange. This report, as it lies there, would not exist in any such form as it has were it not for the hearings of the New York Cotton Exchange committee, the records of which were submitted to the Commissioner of Corporations.

As the committee of the New York Cotton Exchange looked into this matter it found, as everyone will find, that the critical point in the whole business is the matter of valuing the different grades of cotton for delivery upon contracts for future delivery. The Commissioner of Corporations in his first report laid down the principle that the only just and equitable method of valuing these different grades is what he calls the "commercial-difference" system—the system which prevails in Liverpool and New Orleans, and which did prevail in New York until 1897. He roundly declares, over and over

again, that this "commercial-difference" system, as he calls it (I not think anyone ever did call it so before the Commissioner of C porations so named it), is the only just and equitable system; and tl the system which he calls the "fixed-difference" system, which l been in operation in New York, is unjust and inequitable. And last report is mainly given to combating the arguments and the s gestions against his contention which were brought out in the heari of the New York Cotton Exchange committee.

It would take me, not one morning, but several days to go into the details of this intricate matter of the valuation of the differ grades of cotton. I will say here that the Commissioner of Corpo tions has not begun to exhaust the subject in his report. But cert salient points do stand out, and I will state to the committee some the difficulties which the New York Cotton Exchange finds in the w of accepting in toto the principle laid down by the Commissioner Corporations.

The cotton merchants of the New York Cotton Exchange kn (and their knowledge has been amply confirmed) that the real r son why there is any difference in the value of the different gra of cotton is that those different grades have different values to spinner of cotton. There is no other reason why low middl cotton should be worth less than middling cotton than that spinner gets a less quantity of yarn and a less quantity of go out of his low middling cotton than he gets out of his middl cotton. Members of the New York Cotton Exchange already kn approximately what those differences of value to the spinner the different grades of cotton are. They know that the differen between the grades which have existed in the New York mar for many years approximately represent the difference in the va of the different grades to the spinner. It was a kind of vague app hension of this which had such weight with members of the N York Cotton Exchange when the calamity of 1906 took place. know that low middling cotton is worth to the spinner betw 4 and 5 per cent less than middling cotton is worth to the spinn I mean by that that the spinner gets out of 100 bales of low middl cotton between 4 and 5 per cent less yarn than he gets out of bales of middling cotton; and we have substantially similar infor tion with regard to the value of the other grades of cotton.

Mr. LEVER. If it does not interrupt you, Mr. Marsh, I should l to ask you just there, for information, what you consider in mak up your grades? Is it the staple, the color, and the trash in cotton?

Mr. MARSH. The staple has nothing to do with it; and in matter of making up the grades of white cotton the color has not a thing to do with it. In making up the grades of white cotton i the amount of leaf and trash, and so on, appearing in the cotton wh determines the grade.

Mr. LEVER. Does the strength of the fiber of the cotton have a thing to do with it?

Mr. MARSH. It has nothing to do with it beyond this: That cot which is what we call "perished" cotton—cotton which has b exposed to the weather for a long period of time and the ten strength of whose fiber is practically destroyed—is not regarded a merchantable cotton, is not deliverable upon contracts in the N

York Cotton Exchange, and is to be regarded as being in a class by itself.

Mr. LEVER. I did not want to interrupt you, but I wanted that information myself.

Mr. MARSH. Now, Mr. Chairman, the proposition of the Commissioner of Corporations is that this economic difference in the value of the grades of cotton should be entirely thrown away; that the only thing to be regarded in determining the differences between the grades is the relative supply of those grades, and the relative demand for those grades from day to day. That is the principle which the Commissioner of Corporations tells us is the only just and equitable principle—the principle which the New York Cotton Exchange ought to adopt if it is to have any reason to exist. That, Mr. Chairman, is a pretty extensive proposition. But it is a proposition which has been very generally taken up. These gentlemen here from the South propound it. They declare that that is the only sound principle. And the reason given by the Commissioner of Corporations—and, as I understand it, by these southern gentlemen—is that the all-important matter is that the price of middling cotton and the price of future contracts should remain substantially the same, in order that (as they put it) the price of middling cotton and the price of future contracts may remain at a fairly fixed and narrow parity. The principle that what determines the valuation of a grade of cotton is its value to the spinner is to be thrown to the four winds of heaven.

Mr. Chairman, it is a pretty hard proposition that you have to go out of existence because you can not see that that is a sound principle. It is a pretty hard proposition, and it is harder when you begin to see the consequences that follow from that proposition.

Let us take that extraordinary crop of 1906–7—the crop when the storm came in the end of September. Over night, as I have said, through an act of God, the cotton producers of the South had left on their hands a cotton crop with an unusual proportion of low grades and an extraordinary scarcity of the higher grades. One would say that in a situation like that the true question was, What shall be done with these low grades? How can we get the full value out of these low grades? The only cotton that thousands and tens of thousands of farmers in the South had to sell was low-grade cotton. It did not make any difference to them what the price of middling cotton was, or what the price of good middling cotton was. They did not have any. They had on their hands at least 2,000,000 bales of low middling cotton. They had on their hands 2,000,000 bales of strict good ordinary and good ordinary cotton. They had on their hands 2,000,000 bales of stained and tinged cotton. And from the point of view of the genuine welfare of the cotton producer the all-important question was, How shall we handle this extraordinary superfluity, for the time being, of these low grades, that Almighty God has given us to our harm?

The Commissioner of Corporations and these gentlemen from the South, as I understand it, say to us: "The thing to do is to keep the price of future contracts up to the price of middling cotton, and to do it by cutting down the valuation of these low grades of cotton to so low a price that they will be dirt cheap, and will find a consumer ready to take them off the hands of those who have produced them."

That, Mr. Chairman, is the consequence of this principle. That was the method adopted or followed by the New Orleans Cotton Exchange.

Mind you, I do not criticise the New Orleans Cotton Exchange for following that method. It was the traditional method. It was the method that cotton exchanges had generally followed in the past, and it was the method which the Commissioner of Corporations says is the only sound and just method. That the New Orleans Cotton Exchange should not have broken away from tradition and should not have seen a new light is, I say, no reason for criticising the New Orleans Cotton Exchange. But mark you, Mr. Chairman, what the practical consequences of that method followed by the New Orleans Cotton Exchange were: We know that in that year the value of low middling cotton to the spinner was approximately 50 points less than middling; and yet New Orleans Cotton Exchange cut that difference down to 125 points. They marked off $3 a bale on 2,000,000 bales of cotton. We know, sir, that the value of strict good ordinary cotton to the spinner and the value of good ordinary cotton to the spinner was approximately a cent a pound off. They cut that value down to 3½ cents a pound off. They valued that cotton, sir, at over 2½ cents a pound ($12.50 a bale) less than it was worth to the spinner. They cut, sir, $25,000,000 off the valuation of that cotton, and they cut another $25,000,000 off the valuation of the stained and the tinged cotton that that storm had produced.

Mr. SIMS. Right there, Mr. Marsh, let me ask you this question: The practical effect of that would be that the owner of this low-grade cotton would not deliver it on contract in New Orleans, but would sell it to the consumer, would it not? Would not that be the practical effect?

Mr. MARSH. Mr. Sims, he could not sell it to the consumer when the consumer was not buying it at the moment—when the consumer was looking around to see whether he was going to get the high-grade cotton that he had contracted for.

Mr. SIMS. But he would not tender it on contracts in New Orleans at this undervalued difference?

Mr. MARSH. He certainly would not; and he did not, sir.

Mr. MENDELBAUM. Right in line with that question——

The CHAIRMAN. I think it would be better not to interrupt.

Mr. MENDELBAUM. I desire to bring out that he would not deliver it on contract. Was not the spot price the same?

Mr. MARSH. The spot price was the same.

Mr. MENDELBAUM. If he bought it on the spot, he would have got it at the same price?

The CHAIRMAN. I think it would be better for you to wait until Mr. Marsh has concluded.

Mr. MARSH. Mr. Chairman, that is the outcome of the application of the principle which Mr. Herbert Knox Smith says is the only just and equitable principle for an exchange to adopt in determining the valuation of different grades of cotton. And that is not the only effect: If that system had been adopted by all the exchanges, there would have been a period of four or five months when you could not have sold any of that low-grade cotton at any price. And the reason for that, sir, is this: Take the case of a man who bought a thousand bales of strict good ordinary cotton, and sold a hedge in New Orleans against it. The next morning, when he woke up, he found that the

New Orleans Cotton Exchange had written $1,000 off the value of his cotton. Three days later they had written $2,000 more off the value of his cotton, and before they got through writing off they had written over $10 a bale off the value of his cotton. Now, Mr. Chairman, no merchant will go ahead buying cotton from the producer and every day seeing the valuation of that which he has bought written down and down and down. No man will do that. And for months in the middle of that critical season of 1906–7, the only cotton which the cotton producers of large parts of the South had to sell at all could not have been sold at any price.

I simply call attention to these things, Mr. Chairman, to show that there is at least another side to this question from that which has been presented by these gentlemen from the South and by the Commissioner of Corporations. They do not know, sir, the practical consequences of their contentions.

The merchants who constitute the New York Cotton Exchange are sensible of their obligations to those who produce the cotton crop of the United States. They are sensible of their obligations to maintain, as far as they can, really just and really economic principles in the conduct of that business. That is what the charter of the New York Cotton Exchange calls for—the establishment of really just and really equitable principles in the conduct of the business. And I say, sir, that from my point of view any principle which has such practical results as the principle announced by Mr. Herbert Knox Smith is not a just and equitable principle.

What the New York Cotton Exchange has been trying to do for the past year and a half is to find out, if it can, what is the fair, economic valuation of these different grades of cotton. We realize that no matter what may happen during one season or a part of a season, in the long run every one of these grades of cotton will come back to its economic value. Strict good ordinary cotton, valued at 3½ cents a pound off middling, and worth a cent a pound off middling, will come back to its economic valuation if you give a little time for the operation of the natural laws of trade. And the search for a basis of that kind for the valuation of grades in the New York Cotton Exchange is what has occupied us for the past year.

We find, Mr. Chairman, that the Commissioner of Corporations derides us in that effort. He scoffs at us in that effort. He tells us that it is not economic to value grades of cotton at what they are worth to the spinner. And he even throws out, sir, this grain of comfort to the cotton producer of the South, upon whom God has sent a heavy calamity in the shape of a storm like that of 1906.

I find that on page 202 of the fourth part of his report the Commissioner of Corporations says:

> It is certainly remarkable that a member of a trading organization should seriously advance the argument that a spinner should be compelled to pay for cotton all that it is worth to him, at a time when natural conditions enable him to purchase it for less.

Mr. Chairman, when the next great storm comes over the South, and when the cotton producers of the South are face to face with the necessity of turning into money a vast quantity of low-grade cotton, it will be a very great comfort to them to be told that through the efforts of these gentlemen from the South, through the efforts of Congressmen, backed up by the opinion of the Commissioner of Corporations, but at a cost of $50,000,000, the price of future con-

tracts has been kept up to a parity with the price of spot cotton or middling cotton.

Mr. Chairman, we may be right, or we may be wrong. I have given you as well as I could, in my poor way, the considerations which affect our minds as merchants, in view of our obligations as merchants and in view of our obligations to those who produce that which we have as the basis of our business. I say we may be right, or we may be wrong; but I want to call your attention to the fact that whether we are right or whether we are wrong, we are in competition with the New Orleans Cotton Exchange, which is pursuing exactly the course laid down by the Commissioner of Corporations. And, sir, if we are wrong, and they are right, they will get the business and we shall lose it. I ask you, Mr. Chairman, whether there is any conceivable reason why the Government of the United States should interfere between these free competitors—one of whom, in the exercise of its proper discretion and best judgment, is following one course, and the other, in the exercise of its equally free discretion and free judgment, is following another course—and should say to the one of those competitors that its conclusions and its principles are unjust and inequitable, and that it has not any right to exist? That is a new thing in the government of this country, Mr. Chairman. We never have had that before.

Now, only a few more words about this report of the Commissioner of Corporations:

The Commissioner of Corporations does not even stand to his own guns. He does not even know his own mind. In the second volume of his report his conclusion with regard to the range of grades deliverable on contract is that the delivery of grades below low middling is inadvisable, and gives rise to difficulties and controversies, and that the cotton exchanges ought to change their contract for the future delivery of cotton so that that contract shall no longer represent cotton as it is produced, but shall represent only cotton from low middling up. That, I say, is his fundamental contention in the second volume of his report. The whole of that volume is devoted to bringing out the substantiality of that contention. And now, sir, comes this third volume of his report, in which he states that the New Orleans Cotton Exchange, after consultation with him, has made changes in its contract greatly improving it, and by inference making it satisfactory; and the New Orleans Cotton Exchange has not adopted a contract with a low middling clause in it. The whole contention of that volume of the report of the Commissioner of Corporations has been absolutely neglected by the New Orleans Cotton Exchange. And yet, in the last volume of the report, the commissioner says that the New Orleans Cotton Exchange, after consultation with him, has done its duty; whereas the New York Cotton Exchange, though it appointed a committee, has as yet arrived at no result.

Mr. Chairman, it may be that this method of conducting the cotton business, which cotton merchants have evolved, is to be done away with; or it may be that some form of governmental supervision is to be imposed upon the hitherto free merchants of this country. But I ask you, Mr. Chairman, and I ask other members of the committee, whether, so long as we are free, our judgment ought to be controlled by the opinions and the conclusions of a man who does not know his own mind, of a man whom we can plainly see not to be largely and accurately familiar with the facts, and of a man who is willing to

accept conclusions with such terrific pecuniary consequences to innocent persons as arise from the opinions and the conclusions of the Commissioner of Corporations?

We are doing the best we can, Mr. Chairman. We are doing the best we can as cotton merchants. We are giving consideration to what we believe to be the genuine interests of the cotton producers of the country. We are abused and we are scoffed at; we are called malefactors, and I know not what; but we are doing our best. We are not, however, ready to be coerced into the adoption of principles in the conduct of our business which we see have calamitous consequences, and calamitous consequences at the very time when there is most need of helping those thousands and tens of thousands and hundreds of thousands of men who have sweated through the long summer raising a crop of cotton, and have then, through the act of God, seen that cotton lowered in value beyond anything they ever anticipated.

Mr. Chairman, I have nothing more to say on this point; but I should like to say a few words with regard to the bills which, as I understand it, are before the committee.

Mr. SIMS. Mr. Chairman, is it your purpose to continue in session a few minutes longer?

The CHAIRMAN. The House is in session, and matters are pending there in which Members are interested. I think the committee will have to adjourn now, and we shall be glad to have you continue the discussion along the lines you suggest when we resume our session at 2 o'clock this afternoon.

Mr. BURLESON. Before you adjourn, Mr. Chairman, just let me make this suggestion: I should prefer to cross-examine Mr. Marsh with reference to the parts of his presentation of the matter which he has already made before he goes into the discussion of the details of the various bills.

Mr. MARSH. I am not going to discuss the details of the bills, Mr. Chairman, I am simply going to point out—and I can do it, I think, in five minutes—certain considerations which may not have occurred to members of the committee in connection with the proposed legislation. I do not think any discussion about it will be necessary.

Mr. BURLESON. If Mr. Marsh takes the position that certain considerations have not suggested themselves to the Members who introduced those bills, there will be considerable discussion of the matter. He says it will only take five minutes; but he can not tell. He thought he could present this matter in fifteen minutes, and it has taken him an hour and a half to do it. I should prefer, before we get so far away from his presentation of the other phases of this matter, to interrogate him. I will not take long in doing it. I am going to ask questions that will not call for long dissertations upon political economy.

The CHAIRMAN. We will confer in regard to that matter, and make some suitable arrangement when the committee resumes its session at 2 o'clock.

Mr. SIMS. Another thing, Mr. Chairman. I intended to ask Mr. Neville a few questions; but in talking with Mr. Neville he tells me that all economic questions should be addressed to Mr. Marsh. I therefore want to ask him a few questions, instead of Mr. Neville.

(The committee thereupon took a recess until 2 o'clock p. m. of the same day.)

AFTER RECESS.

The committee met pursuant to the taking of recess, Hon. Charles F. Scott, of Kansas, in the chair.

Mr. MENDELBAUM. Mr. Chairman, Mr. Burleson, of Texas, this morning offered a paper entitled "Board of Trade of the City of Chicago *v.* Christy Grain Stock Company," which contains, to a great extent, nothing but the personal opinion and personal conclusions of Mr. Burleson. We are entitled, it seems to me, to examine and cross-examine him in regard to the matter, as he treats of a decision of the Supreme Court in a manner which is not exactly borne out by the facts. In the concluding paragraph he states that the argument in H. Rept. 67 is contrary to the decision in the case of the Board of Trade of the City of Chicago *v.* The Christy Grain Stock Company. That is based upon a willful failure to distinguish between contracts.

We claim we have made that distinction between the contracts. Our contract is clearly a contract within the meaning of the decision of Justice Holmes of the Supreme Court, and that is further established by the fact that in recent cases of this kind tried even in the South—I refer here to the case of Haven & Clement *v.* James, and Clement & Smith *v.* James, tried in Atlanta, and also a case in the United States court for the southern district of New York, the case of Springs Company *v.* James—the trial justice held that he had to follow the law as laid down by the Supreme Court of the United States, and took particular pains to enunciate the doctrine that even if the party sending in the order had in his mind that he would not perform the condition imposed by that contract—in other words, that he would neither receive nor deliver—that decision would be without any effect whatsoever as long as he had not entered into a positive agreement with a party in New York or Chicago to the effect that it should be a contract in which no delivery or receipt of goods was intended, and that the fact that he had no right to receive them on the contract in Atlanta would not render that contract illegal if they had the intention to receive or deliver, for the reason that the party in Chicago or New York could not read the mind of the man in Atlanta who has not the order.

That is all I want to say at this time; but it seems to me it is not fair to us that such testimony should be read into the record by Mr. Burleson without giving us an opportunity to examine what has been put into the record, and to cross-examine him as to his conclusions and opinions.

The CHAIRMAN. I take it that Mr. Mendelbaum has examined pretty carefully what Mr. Burleson has said, and therefore I suppose his statement is made as a brief reply to Mr. Burleson.

Mr. MENDELBAUM. That it is not in accordance with our information, and anything offered at this meeting, as I understand it, should be testimony. So it seems to me that one class of testimony should be handled like another, and for that reason we would like to have an opportunity at some other time to examine him upon that statement.

The CHAIRMAN. I have no doubt that Mr. Burleson will be willing to be examined.

Mr. MENDELBAUM. The committee will understand that I refer to Mr. Burleson's statement, and I have no reference whatever to the committee in my criticism.

Mr. BURLESON. In explanation I will say that Mr. Mendelbaum, not being a lawyer, does not understand that in order to properly discuss the decision in the case of the Board of Trade *v.* Christy it was necessary to in a measure detail the facts of the case as set forth in the opinion of the court.

Mr. MENDELBAUM. I do not take issue with Mr. Burleson in that; I simply claim we ought to have the right to know what is in that paper, as he knows.

The CHAIRMAN. We will not pursue this matter any further at this time. Mr. Burleson has expressed his desire to appear before the committee at a later date if anybody desires him to do so.

The committee has questioned Mr. Marsh at such length that members have said they did not care to continue further at this time, and Mr. Burleson desires to ask him some questions.

Mr. SIMS. I would like to ask Mr. Marsh a few questions that I intended to ask Mr. Neville. In discussing this matter with Mr. Neville he said that all subjects pertaining to the economics of the question should be asked Mr. Marsh.

The CHAIRMAN. If you will make your questions as brief as you can, we will shorten the inquiry.

Mr. SIMS. Yes; I will do so.

TESTIMONY OF ARTHUR R. MARSH—Resumed.

Mr. SIMS. You stated in substance that the reason daily transactions on the cotton exchange were not made public was because of the inaccuracies and errors that necessarily occurred on account of the hurry and confusion of doing the business of the day. That is in substance correct?

Mr. MARSH. I think so.

Mr. SIMS. And that did not so much apply to the stock exchange, for the reason that they delivered their stock the next day and errors could be corrected?

Mr. MARSH. Yes.

Mr. SIMS. Are not all transactions on the cotton exchange for future delivery, or otherwise, noted, and is not a record made of them; is not some record of them kept in the cotton exchange?

Mr. MARSH. Not in the cotton exchange, no; only the price.

Mr. SIMS. Is there no report of the amount of the transaction?

Mr. MARSH. No.

Mr. SIMS. Is there no way to keep that report by or through the cotton exchange?

Mr. MARSH. They attempt to keep a record——

Mr. SIMS. I do not mean for current publication, but to keep a permanent record?

Mr. MARSH. I should not like to say that some means could not be found to keep it, but the physical difficulties are found to be almost insuperable.

Mr. SIMS. What I mean is this: At the end of the month or at the end of the year is there not a method or are there not facilities in the cotton exchange by which it can be ascertained—the number of transactions in bales that took place, say, the previous year?

Mr. MARSH. There is no machinery at present for ascertaining that.

Mr. SIMS. Well, do you not think that that would be good information for the country to have? I will withdraw that question, because that is only a matter of opinion. But, anyhow, there is no method at the present time by which they could publish accurately, either monthly or semimonthly or every six months, or at the end of a year, the actual number of transactions in bales?

Mr. MARSH. No; there is not.

Mr. SIMS. I want to ask you if there was no speculative business done at all, would it be practicable and possible for members of the exchange to hedge against actual business in the way of spot delivery? I say speculative business, which is sometimes referred to by persons who are not acquainted with the proceedings of the exchange as what would be illegitimate; but I will say speculative business. If there was no speculative business done at all, would it be practical for members of the exchange to hedge against actual business in the way of spot deliveries?

Mr. MARSH. My impression is that it would still be possible. I have stated to the committee that there are months at a time when there is practically no speculation being done in the cotton market, and yet the process of hedging continues through those periods.

Mr. SIMS. If I understand you, then, what we call a pure speculator—I mean a man who buys a contract for the future who does not intend to carry it out literally, but intends to sell out before the month of delivery arrives—that the business of that man is not necessary to the real function of hedging upon the exchange, that such an element of business and that such people—people who do that kind of business—are not necessary to hedging.

Mr. MARSH. I should say not.

Mr. SIMS. Therefore, if purely speculative transactions were eliminated by any process, it would not injure the cotton exchange so far as the hedging business is concerned?

Mr. MARSH. I think the process of hedging would still go on.

Mr. SIMS. I wanted your notion as to that. Now, Mr. Marsh, is it a fact or not that in a certain year—I do not remember the year—Mr. Sully carried on a campaign in the May delivery, as was stated in the public press, after which it was represented in the paper that Mr. Brown and Mr. Hayne, of New York, came to the cotton exchange and carried on a campaign of July, August, and September? Do you remember what year that was?

Mr. MARSH. My impression is it was 1903.

Mr. SIMS. Well, I wanted to be accurate about it. Is it a fact that that year, especially for the September contract, cotton to the extent of thousands of bales was returned or shipped back or shipped from spinners in New England and some other places, and even Europe, and carried to New York, for the purpose of delivering upon contract to New York?

Mr. MARSH. I was not then, myself, on the floor of the New York Cotton Exchange or living in New York. I was a member of the New York Cotton Exchange at that time, but I was not living in New York. So I can not answer that question.

Mr. SIMS. I will state to you, if my recollection is correct, that that same year the official report of the movement of cotton shows that between 40,000 and 50,000 bales of cotton were returned from Europe after being shipped over there, and freights paid and insurance paid,

that that many bales were returned and delivered on contracts to New York, because it was more profitable for the spinner not to spin, but to get a contract delivery value in New York; it was more profitable for him to do that than it was to go ahead and spin the cotton. If such was done, do you, as an authority on the subject, regard that as good economics, applying to the general cotton trade?

Mr. MARSH. I do not see anything uneconomic about it.

Mr. SIMS. Then do you think it is proper to promote a business which disturbs the consumption of cotton in the way you said it could be consumed, by being spun or manufactured, and bringing it to New York and keeping it there, simply as a means of liquidating or receiving a profit upon a tender through the rules of the exchange?

Mr. MARSH. Mr. Chairman, my recollection is that in 1903 spinners were carrying what we call an invisible supply of cotton; that is, a stock of cotton at their mills sufficient to last them about two months, to go on spinning the cotton for two months without buying any more. I can see nothing destructive or disturbing to trade, for some of those spinners, if it was spinners who entered into this transaction, who had on hand cotton enough to run them for several weeks or months, to resell a part of it to Messrs. Brown & Hayne, if they were the speculators in question, and turn it into money, knowing that within a month or two the new crop of cotton would be moving freely and that they could easily repurchase what they had sold out.

Mr. SIMS. Right there you have come to a very important matter. The natural course of cotton is to be manufactured, and currently manufactured, if possible, each year. When a large amount of cotton was diverted from natural channels of consumption, sent back and delivered upon the September contract in New York to these speculators, and therefore held over and added to the current crop that year, did that not have a tendency, and necessarily have a tendency, to depress the value of the new crop, because that much of the old crop was held over through this speculative arrangement, and augmented the new supply to that extent?

Mr. MARSH. Am I to understand Mr. Sims to mean that if that cotton had not been shipped to New York it would have passed out of existence?

Mr. SIMS. No. This is what you should understand me to say. If it had not been for what they call a bull campaign—you know what that means, literally and technically—that this cotton never would have been shipped back from Europe and delivered in New York, and would have been manufactured in Europe, where it went for the purpose of manufacture, or to New England, or wherever else it might have gone, that it would have gone the way you say—and we are admitting that the right and proper and natural way for cotton to go is into the hands of the manufacturer. Therefore the manufacturer, by this operation of the exchange, was delayed in manufacturing the cotton, and this accumulation of stock, accumulated by reason of this campaign, did not go into consumption in the year it would have gone into consumption, but was held over, and augmented the next crop to the extent of this unnatural or speculative dealing on the cotton exchange.

Mr. MARSH. I am not aware, sir, that any spinner consumed a pound less of cotton during that period than we would have consumed if this operation had not been entered into; and as far as the effect of

cotton upon the market is concerned, cotton in existence, no matter where it is, is the real market factor, and the only market factor.

Mr. SIMS. If it had been spun, consumed, and changed from cotton into some other form of property in the month of July and August—or June or May—I don't know when they had it—then it would not have been in existence in September in New York, and therefore could not have affected the market?

The CHAIRMAN. Will you be kind enough, Mr. Sims, to shape your questions so as to bring out information and not make arguments?

Mr. SIMS. You are probably right, Mr. Chairman, and I will try to do so.

I want to state the further fact, as appears from the paper, that the September futures during September were kept up to about 13 or a little over, to the last day of September, and that the Brown & Hayne pool, or whoever they were, had to take and did take altogether about 275,000 bales of cotton which they then had, and had to merchandise, and I will ask you if it is not a fact that they had to sell that cotton afterwards at a lower price than the contract price was at the time the cotton was accumulated?

Mr. MARSH. I can not answer that question, because I do not know what Messrs. Brown & Hayne's operations were. I never saw their books. I have no information as to whether they made money or lost money in their operations. All I can say on this subject is that so far as I know no single spinner in the world at any time during the summer of 1903 curtailed the consumption of cotton in his mill a single pound by reason of what was going on in the New York or New Orleans markets for futures.

Mr. SIMS. Only one more question. Is it not a fact when what you call the bull campaign as being run on the exchange is under way that gentlemen who receive delivery sell some of the cotton that they have received to parties with the contract stipulation that they must ship it out of the New York stock and not run it or tender it on contracts or sell it to anyone for that purpose?

Mr. MARSH. I have never had personal cognizance of such a transaction, although I have heard that it has been done.

Mr. SIMS. If done, is it not uneconomic?

Mr. MARSH. These "if" questions, Mr. Chairman, I am afraid my brain is not able to deal with.

Mr. SIMS. Well, Mr. Chairman, if Mr. Marsh's brain is not equal to the task of answering the questions I shall give it up. I am without real information and I am not trying to ask questions that can not be answered; and if I ask questions along this line that can not be answered by Mr. Marsh, I do not think it is worth while to ask anyone else.

Mr. BURLESON. Do you operate on the New York Exchange as an individual or as a member of a firm?

Mr. MARSH. As an individual.

Mr. BURLESON. How many years have you been a member of the exchange?

Mr. MARSH. I think I was elected in 1901, but I have not kept it as an anniversary.

Mr. BURLESON. What office do you now hold on the exchange?

Mr. MARSH. Vice-president.

Mr. BURLESON. What other offices have you held?

Mr. MARSH. I have been a member of the board of managers and an occasional member of this or that committee of the exchange.

Mr. BURLESON. Numbers of committees?

Mr. MARSH. Yes.

Mr. BURLESON. The other day, Mr. Marsh, in response to a question by Mr. Beall, of Texas (when he asked you to distinguish between the conditions which surround the cotton trade which make it necessary to have an exchange for the sale of future contracts for cotton, and the conditions which surround the cotton goods trade, which in value represent about three times the value of the raw product, for which there is no exchange), if I understood you, you stated that the multitude of merchants, retail and wholesale, engaged in disposing of cotton goods enabled the trade to distribute any losses which might be sustained among so many or over so large an area that it was not necessary to have an exchange, but that it was necessary to have an exchange for the sale of raw cotton in order to maintain intact, or protect as far as possible, the volume of capital necessary for the prosecution of the business?

Mr. MARSH. I think that is a very accurate statement of what I said, sir.

Mr. BURLESON. There are fewer people engaged in the manufacture of wool than cotton, fewer people engaged in growing wool than cotton. It takes approximately $500,000,000 to handle the world's wool crop. Differentiate for this committee, if you can, why it is that it is necessary to have an exchange for cotton and not for wool?

Mr. MARSH. Before proceeding to speak of the wool I should like to call attention to one point which I did not make in the statement Mr. Burleson quoted from me. I said that the immense number of small merchants who handled dry goods enabled the risk to be distributed to such an extent as not to fall unbearably upon any one of them. I ought to have added to that statement the further statement that the retailers and wholesalers of dry goods work on a margin of profit so large as compared with the profit which handlers of raw cotton work on that a decline in the value of the goods which they have on hand may be very considerable before those goods get down to their cost.

Mr. BURLESON. Well, considering that additional element, please, in a few words, if you can, differentiate between the conditions which environ wool and make it unnecessary to have an exchange for the sale of future contracts for wool?

Mr. MARSH. That statement which I have just made was preliminary to a statement I desire to make with regard to wool. I have never been in the wool business myself, but a member of my family was in the wool business for a number of years in Boston, which is now the chief wool market in this country, and I became tolerably familiar with the conditions of conducting that trade.

In the first place, in the wool trade, owing to these possibilities of loss, due to having no opportunity to hedge, the margins are kept very much wider than they are in cotton. A wool merchant expects to get, tries to get, at least 20 per cent. A cotton merchant expects to get from one-half to three-quarters of 1 per cent. But, Mr. Chairman, in spite of the wool merchant aiming to get this very much larger margin between what he pays for his wool and what he sells

it to the manufacturer for, the wool business is one of the most speculative and one of the most dangerous forms of modern merchandizing.

Any wool merchant in Boston will tell you that the wool firms there go through extraordinary vicissitudes of profits and losses——

Mr. BURLESON. You evidently mistook the purpose of my question. I want you to tell this committee if you can the difference in conditions which environ the wool trade—I don't care whether those engaged in it lose more money or not; that is a subsequent matter—tell, if you can, the difference in conditions which environ the wool trade, which make it unnecessary to have an exchange.

Mr. MARSH. The wool trade would have an exchange in a minute if it could. There is not a wool merchant in Boston——

The CHAIRMAN. Well, can you tell us in a word why it can not?

Mr. MARSH. The first and chief reason why it is impossible is that the determination of the value of a pile of wool in a warehouse is purely and simply a matter of guesswork. Wool is handled almost entirely in the grease. The value of the wool, however, is its value after it is scoured. Now, there are the most extraordinary divergencies of opinion between the most expert buyers as to the scoured value of any given pile of wool. It is a business which is more largely guesswork than any business probably in the world.

Now, when you come to taking a contract for future delivery, this element of guesswork, of uncertainty as to the real economic value of each particular lot which is to be delivered, introduces problems and perplexities which have so far proved insuperable. There was, as you know, undoubtedly, an attempt some years ago to establish a wool exchange in New York. It was never possible—never proved possible—to work out any rules for the delivery of wool on contracts which were dependable, and which worked out in practice in a manner economically sound.

Another difficulty that arises in connection with wool, but along the same line, is that although the total amount of wool produced is very large there is a very extraordinary difference in the characters of wool that are produced, and the valuation of these extraordinarily different characters of wool has proved beyond the powers of any set of wool merchants who have ever put their brains to the matter.

In this connection, however, I should like to call your attention to the fact that there formerly was, and I supposed until I heard a positive statement to the contrary still was, trading in contracts for what are known as wool tops in Antwerp. That one specific——

Mr. BURLESON. I beg your pardon; I was not asking you whether there was an exchange at Antwerp, or about a rumor of one in Antwerp. I again direct your attention to my request for conditions which environ the wool trade which you think makes it unnecessary to have an exchange, in the fewest words, please.

Mr. MARSH. Well, in the fewest words possible, the conditions that make it impossible, or so far make it impossible, are the incalculability of the particular lots of wool that have to be dealt with.

Mr. BURLESON. Now, Mr. Marsh, am I to understand by that answer that the principal reason why the trade requires no wool exchange is that there is a much larger number of grades of wool than there is of cotton?

Mr. MARSH. Yes; I am sure of it.

Mr. BURLESON. And you think the extreme doubt about the quality of wool that there is another reason why you can not have a wool exchange?

Mr. MARSH. I did not say the extreme doubt about the quality of wool. I said the extreme doubt as to the value of each particular lot of wool.

Mr. BURLESON. All right. Would not doubt as to the value of each particular lot of wool that make for speculation rather than diminish the chances for it, and, in fact, afford an additional reason why you should have a wool exchange, from your viewpoint, rather than a reason why you should not have one?

Mr. MARSH. Mr. Burleson, I do not think the reason for the exchange is the opportunity it offers for speculation.

Mr. BURLESON. No, but to eliminate risk; but I will ask you this question: Was not the principal reason for failure to establish the wool exchange in New York because the existing exchanges furnished sufficient facilities to anyone who wanted to speculate or gamble, and that the wool exchange did not receive the patronage necessary to keep it going?

Mr. MARSH. I have not been so informed. My information has been that the trouble with the wool exchange was the impossibility of making rules and regulations of a general character to apply to a commodity so incalculable in its varieties as wool.

Mr. BURLESON. You know Mr. J. R. McColl?

Mr. MARSH. Yes, sir.

Mr. BURLESON. He was at one time the president of the National Association of Cotton Manufacturers?

Mr. MARSH. Yes.

Mr. BURLESON. You are not in accord with the view expressed by Mr. McColl when he said, speaking as to the necessity for a cotton exchange:

> Why should it be so, if the wool crop of the world, amounting in value to $500,000,000 annually as well as the silk and linen crop, are marketed successfully without trading in futures, this system does not influence or move the crop, and it certainly affords great opportunity for speculation which is injurious to legitimate industry. The speculator claims to foresee coming conditions. Unfortunately this is not his chief business. It is to create temporary artificial conditions by selling quantities of cotton that he does not own or buying cotton he does not intend to accept delivery of. In the long run it must of course be admitted that supply and demand regulate price, but in the intermediate artificial fluctuations the speculator makes his money and the grower and manufacturer are apt to suffer disaster.

You do not agree with those views at all, although Mr. McColl is the president of a number of cotton mills and has been a manufacturer of cotton for many years.

Mr. MARSH. My first answer to that would be, Mr. Burleson, that there is no commodity handled in the United States in which there is more constant speculation than there is in wool. The speculation in proportion to the amount of wool handled is in my opinion fully as great as the speculation in cotton.

Mr. BURLESON. And yet it is not necessary to have a wool exchange to hedge the risks.

Mr. MARSH. There is no exchange.

Mr. BURLESON. You said yesterday, in response to a question asked by Mr. Scott, that it was unsafe for the spinner and unwise for the spinner to go to the New York Cotton Exchange.

Mr. Marsh. Did I use those words, sir?

Mr. Burleson. I think you did.

Mr. Marsh. Did I say unsafe?

Mr. Burleson. I think so.

Mr. Marsh. Unsafe and unwise? I should be very glad to have the matter looked up.

Mr. Burleson. Well, did you use the word unwise?

Mr. Marsh. I do not remember using the word unwise. My recollection is that I said the contract for future delivery of cotton in New York was a cotton merchant's contract; was not designed for the use of spinners.

Mr. Burleson. And that it was unsafe and unwise?

Mr. Marsh. I don't think I said that, sir.

Mr. Burleson. Well, do you say it is unsafe and unwise or do you not—for him to go there?

Mr. Marsh. In determining safety and wisdom I am not particularly an expert.

Mr. Burleson. Well, I will put it to you this way then, if you can not readily answer that question. Does the spinner go there?

Mr. Marsh. I think he does.

Mr. Burleson. Would you be surprised to know that Mr. McColl, of whom I spoke, in testifying before this committee has said:

> My opinion is that the spinners of this country have used the future market to a very small extent. Lately they have been forced to use it more, but they have not used it to any large extent in years gone by. There are thousands and thousands of manufacturers who have never bought a bale of futures.

Is that statement, entertaining the view that you have just——

Mr. Marsh. I think that statement is absolutely correct. I think the spinners of this country until a few years ago were of the opinion that the course for them to pursue was, as one of them stated to Mr. Hubbard and me, in a rather excited argument we had at Washington, to take a merchant's view of the situation and buy their cotton when they thought it was cheap, or sell their goods when they thought the price of the goods was high, and if they had bought their cotton when it was cheap, carry it until they sold their goods; or if they had sold their goods when they thought cotton was high, to keep short of cotton until they had a chance to buy the cotton at a lower price. It is a rather interesting commentary upon this spinner's attitude that his mill has during the last year practically gone bankrupt, that this spinner himself has been turned out of his job as treasurer of the mill, and that the Bishop of Massachusetts, who was a large stockholder in the mill, has preached a sermon against speculation.

Mr. Burleson. Who was the spinner you speak of?

Mr. Marsh. I will not mention his name.

Mr. Burleson. This statement made by Mr. McColl was rather a broad statement and embraced the use of futures for hedging purposes or any other purpose. I am asking you if it is not a fact that for many, many years the New England spinners especially have been extremely hostile to the New York Cotton Exchange upon the ground that its practices were inimical to their interests or the interests of the trade?

Mr. Marsh. The older generation of spinners in New England was unquestionably hostile to the New York Cotton Exchange or any cotton exchange, but the new generation of New England spinners

who are just getting into the field are, so far as I know, unanimously of the opinion that they could not conduct their business without the aid of the exchanges. And the reason for that, Mr. Chairman, if Mr. Burleson cares to have it, I will give.

Mr. BURLESON. Yes; I would like to have any reason you can give, if you can put it in a few words.

Mr. MARSH. I can, sir. The older mill treasurers of New England began with small mills and gradually built them up to large mills. When their mills were small they had no trouble in going to the banks and borrowing money enough to buy the cotton, which was comparatively small in amount, to run their mills. As their mills grew and these older treasurers remained in the saddle, the banks insensibly enlarged their accommodations to these treasurers, and so until the end of the career of these successful old treasurers they had no trouble in getting the money from the banks to buy the cotton which they needed. But now, sir, younger men are taking the place of these old treasurers, and the banks are beginning to ask questions. They say, "It was all right for us to lend money enough to buy 100,000 bales of cotton to Mr. Thomas Jefferson Coolidge, who was a seasoned veteran, who had grown up in this business, who had made an enormous amount of money for his mill, and we could trust him; but how about this young man who has got to come in and take his place? Are we willing to lend eight or ten million dollars to this young man on his judgment as to when is the right time to buy cotton? This young man has not been through the mill. We can not trust his judgment."

And the consequence is, sir, that as these younger spinners come along they are abandoning, and abandoning perforce, the manner of conducting the business of those older spinners, and now you will find younger spinners in New England conducting their spinning to a large extent in the way in which the English spinner conducts his business. He hedges his sales of goods by buying some cotton; or if he buys cotton at a time when he thinks the quality he desires is most easily obtainable, he sells or hedges against it.

Mr. BURLESON. Then in a nutshell you say the reason for this change is that the moneyed class in New England had a confidence in the old spinners that they have not in the younger ones, and here the bankers force the latter to hedge? If that is so, no man would be better advised of it than the president of the New York Cotton Exchange, would he? If this change in sentiment had taken place, or this view point has changed, on the part of the New England spinner, there would be no person who would be better informed about it than the president of the New York Cotton Exchange?

Mr. MARSH. The president of the New York Cotton Exchange never lived in New England, and I have lived there.

Mr. BURLESON. But is it not his duty to keep posted, Mr. Marsh, and haven't you said that one of the great advantages of this exchange was the facilities and opportunities its membership had for keeping right up with the trade, for gathering all kinds of information from all sources with reference to the trade? Would you say, then, that you would expect ignorance upon the part of the president of the exchange with reference to this change of sentiment on the part of the New England spinner?

Mr. MARSH. I should not expect anything.

Mr. BURLESON. Let me read you something that was said by the president of the New York Cotton Exchange, addressing the New England spinners [reading]:

> The hostile attitude taken by the spinners of New England, at the formation of our exchange, and which has continued with more or less intensity during the past thirty-six years—

It was organized in 1871, and thirty-six years would bring it down to 1907, would it not? I haven't the date, but I take it from that that it must have been in 1906 or 1907 when this address was made [continuing reading]:

> was, and is, to my mind, a mistaken policy, which the spinners of England and Continental Europe have avoided by their daily intercourse with merchants from all portions of the world.

If this change of attitude has taken place, Mr. Hubbard, who made that address, was not aware of it, was he, unless he was making a very loose statement or a false statement?

Mr. MARSH. I don't know what Mr. Hubbard was aware of.

Mr. BURLESON. Well, if he made that statement was he mistaken about it?

Mr. MARSH. A tendency had already set up which he did not call attention to in that statement, unquestionably.

Mr. BURLESON. And it has ripened in the last two years into a complete change, you would think?

Mr. MARSH. So far as the younger spinners are concerned.

Mr. BURLESON. There is about as much cotton manufactured in the South as in New England. The president of the American (Southern) Cotton Spinners' Association was here, Mr. Parker. Do its members patronize the New York Cotton Exchange to any extent?

Mr. MARSH. Mr. Parker?

Mr. BURLESON. No; I didn't say Mr. Parker. I said the Southern Cotton Spinners.

Mr. MARSH. Mr. Parker is one of the best customers of the New York Cotton Exchange.

Mr. BURLESON. I didn't say Mr. Parker. I said the Southern Spinners.

Mr. MARSH. The Southern Spinners certainly use the facilities to a large extent.

Mr. BURLESON. Did you grasp the meaning of that resolution they adopted when they said the conditions on the New York Exchange made it unsafe to attempt to hedge there? How do you explain that if that is true? Can it be explained, Mr. Marsh?

Mr. MARSH. It can be explained; yes.

Mr. BURLESON. How do you explain it if it is true?

Mr. MARSH. I explain it as the case of certain gentlemen wishing to force certain other gentlemen to do something they want to have them do and using severe language to that end.

Mr. BURLESON. Then you take issue with the sincerity of statement embodied in that resolution, do you?

Mr. MARSH. I certainly do.

Mr. BURLESON. What is it that fixes the price of a future contract on the New York Exchange?

Mr. MARSH. A member of the exchange ready to buy and another member ready to sell at that price.

Mr. BURLESON. It is the fact that an offer is made and accepted which fixes the price of futures?

Mr. MARSH. Yes.

Mr. BURLESON. Now, what is the basis which controls the fixing of a price by the seller? In other words, upon what is the price to sell based?

Mr. MARSH. In the case of a merchant hedging it is based on what he has paid for his cotton in the South.

Mr. BURLESON. As a matter of fact, you maintain a reserve in New York City of cotton to be delivered or tendered on contracts?

Mr. MARSH. We do not maintain a reserve. There is, under the natural operation of our by-laws and rules, a reserve there.

Mr. BURLESON. We will get to that in a minute. I want to know if there is a reserve there?

Mr. MARSH. There is a reserve there; yes.

Mr. BURLESON. As a matter of fact, is not the price of future contract based upon what is in that reserve, and does not a knowledge of what is in that reserve control and fix the price of the future contract?

Mr. MARSH. No, sir.

Mr. BURLESON. You know Mr. J. F. Maury? (After a pause.) I mean Mr. James F. Maury. He is a member of your exchange.

Mr. MARSH. Then I know him.

Mr. BURLESON. A sufficiently important member of your exchange to have been continued for a number of years as chairman of one of the important committees of the exchange.

Mr. MARSH. He is the treasurer of the exchange.

Mr. BURLESON. The present treasurer?

Mr. MARSH. Yes.

Mr. BURLESON. What do you think of this statement coming from Mr. Maury?

The present price of our futures represents the value of the kind and grades of cotton which the buyer expects to get if he calls for delivery.

Is that true or was he mistaken about that?

Mr. MARSH. In one sense of the word it is true and in another sense of the word it is not true. It is, of course, true that the character of cotton likely to be delivered in New York in its relation to middling cotton will have an effect on the price of futures relative to the prevailing price for middling cotton.

Mr. BURLESON. Then you accept that statement of Mr. Maury as true?

Mr. MARSH. Absolutely and completely? No, sir.

Mr. BURLESON. You do not?

Mr. MARSH. No.

Mr. BURLESON. Now, then, see if the chairman of your committee, Mr. Maury, has not stated the whole truth in that particular; see if you agree on this part of his statement:

He expects low grades and mixed lots, etc.

That is the man to whom cotton is tendered under the contract. He expects low grades and mixed lots.

Mr. MARSH. When?

Mr. BURLESON. When the cotton is tendered to him under the future contracts that are made on the New York Exchange.

Mr. MARSH. There are no such grades in the stock in the port of New York at the present time, and so he can not possibly expect it.

Mr. BURLESON. Then, what do you think about this statement (I read from Mr. Maury's report):

If you go to any great southern market, as Memphis, New Orleans, Galveston, etc., you will see large lots of cotton of the various spinners' grades inspected and classed out in even-running lines of single grades, ready for purchase by spinners or exporters. We used to see these in New York years ago, but we do not now—it does not pay to send them here.

Mr. MacColl, president of the National Association of Cotton Manufacturers, in his recent address on April 24, advises establishing a cotton exchange in New England, especially for spot cotton, to bring the planter and spinner nearer together, and to have fixed standards of grade and sworn classers. We have all these and a working system tested by years, but it is tied down to a small number of bales of mixed lots brought to New York, because they are hard to handle elsewhere.

The speculative business will come here, too, because here are the largest number of buyers and sellers, and our future prices will then be based upon spinners' cotton, as they can not be said to be now.

The cotton world is demanding of us that we must represent the real trading basis, the spot prices for spinners' cotton, not prices based on "overs," low grades, and speculation.

That is the statement made by Mr. Maury in this report which he made to the New York Cotton Exchange, "that your prices for future cotton were based on overs, low grades, and speculation, and not on spot cotton." Is that true or false? That can be answered yes or no. You understand the question, do you not?

Mr. MARSH. I don't think I do.

Mr. BURLESON. I will repeat it in order that you may understand its full meaning, because I want you to answer it, whether it is true or not. This is the report to the exchange made by Mr. Maury, and he makes this statement.

Mr. MARSH. Will you permit me to ask there what that report is. You say a report made by Mr. Maury?

Mr. BURLESON. As chairman of your classification committee, I believe you call it, which was made July 10, 1907, before the New York Exchange. It was by a committee of the New York Exchange, the "Committee on Licensing Warehouses," of which Mr. Maury was chairman. I will read it again, because I want you to understand it, and I want you to say whether it is a false statement or not. There are certain facts connected with this business upon which you are entitled to draw your conclusions, and I want to agree with you, if I can, on the facts, and you may draw your conclusions and I will draw mine from the same facts. I want to ask you now this question. I will read this again:

The cotton world is demanding of us that we must represent the real trading basis, the spot prices for spinners' cotton, not prices based on "overs," low grades and speculation.

Now, Mr. Marsh, I want to know whether or not this statement made by Mr. Maury and four or five or six others—how many exchange members are there on that committee? It was signed by all the membership of the committee. Is it true?

Mr. MENDELBAUM. Mr. Chairman——

The CHAIRMAN. I think Mr. Marsh is entirely competent to take care of himself.

Mr. MENDELBAUM. He has stated that he was chairman of the committee on licensing warehouses, and if Mr. Burleson would read exactly

what was said there he would see that he was chairman of the committee dealing with the proposition to deal with southern warehouses.

The CHAIRMAN. I will repeat that I think Mr. Marsh is capable of taking care of himself, and I prefer to have it left with him.

Mr. MARSH. I answer that question, Mr. Burleson, by saying that Mr. Maury was absolutely correct in saying that the world expected the New York Cotton Exchange—will you read just what that is?

Mr. BURLESON. I agree to that part of it. I agree that that is what the world is demanding of your cotton exchange. That is not the part I am after. "Spot prices for spinners' cotton, not prices based on overs, low grades, and speculation." Now, I ask you the question, Are your prices based on overs, low grades, and speculation?

Mr. MARSH. I reply that they are not, and never have been.

Mr. BURLESON. Then, the statement made by Mr. Maury to that effect is not true?

Mr. MARSH. He does not say that they are.

Mr. BURLESON. What does he say, if he doesn't say that; what is the purport of his statement, Mr. Marsh?

Mr. MARSH. You have the statement before you.

Mr. BURLESON. I certainly have, and I have read it, and I so understand it. If he does not say that they are based on overs, low grades, and speculation, what does he say that they are based on?

Mr. MARSH. I can not see from the statement that he says they are based on anything.

Mr. BURLESON. Are you content with that answer to that question?

Mr. MARSH. I think the answer is a good answer to the question.

Mr. BURLESON. All right.

The CHAIRMAN. Let me ask you one question there. Would it be a fair inference from the statement Mr. Burleson has read that in the judgment of Mr. Maury the prices are based on overs, low grades, and speculation?

Mr. MARSH. It would be a fair inference. If I might have an opportunity to explain——

Mr. BURLESON. I will give you an opportunity later.

Mr. MARSH. May I suggest that I am in the hands of the chairman, and not asking the privilege of the gentleman from Texas? I await the ruling of the chairman.

The CHAIRMAN. I think it would be fair to let the gentleman explain the circumstances.

Mr. MARSH. Mr. Maury is a member of the New York Cotton Exchange. He has not been in the active cotton business for many years. He is a man whom we all greatly esteem, and whose position as a member of the New York Cotton Exchange commands the highest respect on the part of his fellow-members. But he has not been in the active cotton business for many years. If I may venture to say so, he is somewhat of a theorist, and he has conceived a certain opinion as to the necessity of the cotton exchange extending its license warehouse system to Southern States, and in arguing for that position he has rather taken up the current talk about the stock of cotton in the port of New York, which he is not himself handling, and which he has not handled for many years. Therefore that answers that.

Mr. BURLESON. All right. If you repudiate Mr. Maury and his committee, I ask if you know Mr. James T. Milne?

Mr. MARSH. Yes; I think I do know who he is.

Mr. BURLESON. Is he a member of the New York Cotton Exchange? There are only 450 of them.

Mr. MARSH. I think not. I was not sure, but I think not. He is an unimportant person.

Mr. BURLESON. Unimportant, but has he been a member of the New York Cotton Exchange?

Mr. MARSH. That I can not answer. Does anybody here know whether Mr. Milne has been a member?

Mr. MENDELBAUM. Yes, sir; he is.

Mr. BURLESON. All right. What do you think of a man who is a member of the New York Cotton Exchange, or has been a member of the New York Cotton Exchange, saying this? He was a member at the time that this statement was made.

> Referring to yours of the 14th, asking my views as to the particular difference between grades, I am not now in touch with the business sufficiently to form an opinion. My contention is that cottons which have no standing or class in primary markets are not entitled to recognition or listing by the New York Cotton Exchange. The fact that they are listed and an arbitrary value fixed, and that a buyer of contracts must accept them at the value fixed by the exchange, a value that can not be obtained anywhere else in the world, is in my judgment a standing disgrace reflecting on the integrity or intelligence of every influential member. Whatever may be said regarding past operation of exchange business is proof that the system has given satisfaction, it is true nevertheless that the public is awakening to the fact that "heads, I win; tails, you lose" means that the profit all the time goes to one side and is not, as it first strikes the ear, a fair deal to both.

Now, I want to know if there is any truth in that statement, made by a man who was a member of the exchange at the time it was made.

Mr. MARSH. It does not seem to me that there is any truth in it. It never has seemed so to me.

Mr. BURLESON. You said, in response to a question asked by Mr. Sims the other day, in a hypothetical case that he put to you, attempting to show that the price of futures was affected by combination, that it was a pipe dream, or some other expression—I believe you said it was a "fish story." Now, Mr. Marsh, let me read you this, referring to a slump in cotton:

> Look as critically as we may, we can find no germane weakness that would account for the sudden collapse of the market. We must look to some outside agency. It is easily found. The slump was the result of a premeditated attack and persistent onslaught by a party of New York operators, backed by ample capital and prestige in speculation.

Mr. MARSH. I should say that was a fish story, too.

Mr. BURLESON. You would say that it was not true, then, would you? That is what I want to know. When you say "a fish story," do you mean that it is not true?

Mr. NEVILLE. Might I ask whom he is quoting from?

Mr. BURLESON. You will have it in a minute. What do you think of this? Is this also a "fish story?"

> If we believed that the present prices were the result of natural and legitimate causes, we would advise our friends to accept these prices and turn their cotton into money without delay. But we do not believe that the present prices are natural or legitimate. The brief experience we have had with the market this season before speculation interfered, showed that consumers were willing to pay the prevailing prices and producers were willing to accept them. If business had been permitted to run its natural course probably the increased volume of receipts would have gradually lowered prices. This would have been a natural and acceptable result. But when an outside element that knows nothing about cotton and has no interest therein except as a medium for gambling profits arbitrarily, interferes between the producer and consumer and undertakes to fix prices by sheer force of money and manipulation, we believe in suspending the rules and striking with the weapon at hand.

Mr. Burleson (continuing). What would you say about an opinion expressed by that man about the ability of a combination to go in and drive prices up and force prices down?

Mr. Marsh. I should think he was sore.

Mr. Burleson. Would you think it was true or false?

Mr. Marsh. I should think again that it was a "fish story."

Mr. Burleson. What do you mean by that? Somebody may not know what you mean by that. I do not know myself; I do not know whether you mean to say that it is a false statement or not.

Mr. Marsh. An intentionally false statement?

Mr. Burleson. I don't care whether you say it is intentionally false or not.

Mr. Marsh. I think on the face of it it is false, as a matter of fact.

Mr. Burleson. That was a statement made on September 16, 1907, by the president of the New Orleans Cotton Exchange, W. B. Thompson. Is he a member of the New York Cotton Exchange also?

Mr. Marsh. He is not.

Mr. Burleson. Has he ever been?

Mr. Marsh. Not to my knowledge.

Mr. Burleson. You say, Mr. Marsh, that statement is a "fish story." Now, let me ask you this: What is the standard by which you fix differences between the various grades of cotton in the New York Cotton Exchange? That is, the standard used by your revision committee. The committee consists of 17 members, I believe.

Mr. Marsh. Yes.

Mr. Burleson. What is the standard they use?

Mr. Marsh. I explained to the committee this morning that the revision committee of the New York Cotton Exchange as it now does its work endeavors to arrive at a fair and reasonable valuation of the different grades of cotton as compared with middling, taking into account its information as to the probable quantities of those grades in the crop——

Mr. Burleson. Right there, is there any rule of the New York Cotton Exchange that requires them to do that?

Mr. Marsh. There is not.

Mr. Burleson. Is there any rule of the New York Cotton Exchange which prescribes a standard to guide them in fixing the difference in value of the grades?

Mr. Marsh. There is not, sir.

Mr. Burleson. Is it not a fact that they invariably overvalue the grades of cotton that is least in demand?

Mr. Marsh. How is that?

Mr. Burleson. Does not the revision committee in the New York Cotton Exchange fix the values of grades not in demand higher than they should be?

Mr. Marsh. The commissioner of corporations in his last volume charges the New York——

Mr. Burleson. I beg your pardon; I am not asking you about the report of the commissioner of corporations of New York. I am asking you as a matter of fact—well, I will get at it in another way. Is it not a fact, Mr. Marsh, that New York has ceased to be a spot market for cotton?

Mr. Marsh. Well, there are several hundred thousand bales of spot cotton dealt in in New York every year.

Mr. BURLESON. I will ask you if the number of bales of spot brought to New York is not brought there by reason of an artificial condition created by your exchange?

Mr. MARSH. I do not think they are brought there by an artificial condition. They are brought there because you can get more for them there than in some other market.

Mr. BURLESON. Is not the fact that you can get more for them there than in any other market purely an artificial condition?

Mr. MARSH. Cotton always goes where you can get the highest price for it. That is not artificial.

Mr. BURLESON. Exactly——

Mr. MARSH. If it goes to the spinner——

Mr. BURLESON. No, no; that is the very point I am trying to get at, Mr. Marsh. Is it not a fact that if it goes to New York at all to find a market that is because of an artificial condition?

Mr. MARSH. Well, sir, New York is alive and doing business, and cotton goes there. That may be artificial, or it may not; I can not answer that question.

Mr. BURLESON. Is not that one of the serious problems confronting the New York Cotton Exchange, as to how to bring cotton there, how to make cotton come there?

Mr. MARSH. It is unquestionably one of the problems we have to deal with.

Mr. BURLESON. And is it not a fact that the revision committee for years has overvalued the cotton least desirable or least in demand—overvalued it, understand—in order to draw it there?

Mr. MARSH. No, sir.

Mr. BURLESON. You say it is not?

Mr. MARSH. It is not.

Mr. BURLESON. You wrote a letter to the Atlanta Constitution, did you not, Mr. Marsh, in April, 1907? I referred to it in a speech I delivered in the House, and it is embodied in the Smith report. Of course I am not asking you to accept this report or any fact in it, but I am going to ask you about this letter. Did you write a letter?

Mr. MARSH. My impression is that I wrote two or three letters.

Mr. BURLESON. On April 26, 1907?

Mr. MARSH. I think I wrote one to the Constitution.

Mr. BURLESON. Did you not, in this letter, state that it cost somebody one dollar and a half for every bale of cotton stopped off in New York?

Mr. MARSH. Certainly.

Mr. BURLESON. And that cotton sought by the consumers, the spinners, would not come there because the spinners could outbid those who wanted it to come there?

Mr. MARSH. Will you read exactly what I said?

Mr. BURLESON. Well, I want to know if that is substantially correct.

Mr. MARSH. No, that is not substantially correct.

Mr. BURLESON (reading):

Years ago, in the early days of the New York Cotton Exchange, New York was a market in which large quantities of all kinds of cotton were regularly carried in stock and offered for sale to spinners precisely like stocks of dry goods and other commodities which are now even carried and sold by the New York merchants. This is no longer the case, as it was discovered some twenty years ago by New England spot brokers that they could buy cotton in the South and sell it to New England spinners at practically

the same price the New York merchants had to pay for their cotton delivered in New York. In other words, these New England brokers see that every bale of cotton that comes to New York and is carried in warehouses is subject to an expense of $1.50, which is not incurred if the same cotton is shipped direct from the South to the spinner. By saving this $1.50 per bale the New England broker was able to steadily undersell the New York cotton merchant and speedily capture all the old-time business in spot cotton which formerly New York controlled. Spinners ceased to come to New York in search of cotton for their mills, and the result was that the New York market was no longer able to carry at all times the considerable stock of all kinds of cotton it formerly did. * * *

Now, as has been pointed out above, every bale of cotton that comes to New York regularly costs somebody $1.50 to cover New York expenses; evidently, then, it is never possible for any character of cotton which spinners are buying freely throughout the South to come to New York at all. The mere saving of $1.50 per bale enables the spinner always to outbid New York for such cotton as he is buying freely.

Did I misquote you?

Mr. MARSH. You did, sir.

Mr. BURLESON. In what respect?

Mr. MARSH. Because you left out the phrase, "The spinners were buying freely throughout the South."

Mr. BURLESON. No, was not that what I said, that New York could not get the character of cotton that the spinners were buying? That is neither here nor there. It will not stop there, unless it costs somebody $1.50, will it?

Mr. MARSH. That is true.

Mr. BURLESON. If it does not come there somebody loses $1.50 on it, because he could get $1.50 more for it if the spinners were buying it freely in the South, more than the New York parties could pay. Is not that true?

Mr. MARSH. Yes.

Mr. BURLESON. Now I will ask you if you did not use this expression in that same address:

One of the most serious problems of the New York Cotton Exchange has been and is to frame its contracts so that a sufficient supply of actual cotton will regularly come to New York to insure the maintenance of this reserve.

Mr. MARSH. Undoubtedly.

Mr. BURLESON. Now then, in order to get cotton to New York, you must overvalue the grades that are not being used by the spinners or demanded by the spinners freely to the extent of that $1.50, must you not?

Mr. MARSH. No, sir.

Mr. BURLESON. Then, how do you get it there, and what makes it come there?

Mr. MARSH. Any grade of cotton correctly valued which spinners do not happen to be buying freely at a given moment and which the holders desire to sell will come to New York.

Mr. BURLESON. Will come to New York if it is going to lose somebody $1.50 to get it there?

Mr. MARSH. Certainly.

Mr. BURLESON. Cost him $1.50 more than he could get it by shipping it straight to the spinner, or South for export purposes?

Mr. MARSH. But the statement there is that the spinner is not buying that kind of cotton freely. That is the statement you have got before you, sir.

Mr. BURLESON. Is that what is termed "overs?"

Mr. MARSH. I don't know what are termed "overs."

Mr. BURLESON. Well, if there is a lot of cotton in the South and the spinners are buying freely, and there are certain grades that are not being taken by the spinners, and they leave it over and do not buy it, is not that what Mr. Maury meant in his report when he said overs?

Mr. MARSH. I don't know.

Mr. BURLESON. Well, is that what you mean by overs; is that an expression that is used on the cotton exchange?

Mr. MARSH. It is an expression that is used by cotton merchants, and the meaning of it is this: If a spot cotton merchant has contracted to deliver to a spinner a hundred or a thousand bales of even-running cotton, an even grade, and in order to get that he has to buy from the producer 200 or 500 or 2,000 bales of all kinds of cotton, then what is bought beyond the hundred or the thousand bales of even-running cotton is called overs.

Mr. BURLESON. That which the spinners do not desire, then——

Mr. MARSH. That which the spot merchant has not contracted at the moment to deliver——

Mr. BURLESON. Has not been able to dispose of?

Mr. MARSH. Has not disposed of.

Mr. BURLESON. Is what is called overs?

Mr. MARSH. What the spot merchant has not disposed of.

Mr. BURLESON. Is that what you meant when you said then that cotton that was not in demand freely by spinners would find its way to New York?

Mr. MARSH. That is a part of it; yes.

Mr. BURLESON. What is the other part?

Mr. MARSH. Cotton comes to New York which is not overs.

Mr. BURLESON. Now, what is it?

Mr. MARSH. Spot merchants buy the cotton in the South and ship it to New York.

Mr. BURLESON. At a loss of $1.50 a bale?

Mr. MARSH. Certainly not.

Mr. BURLESON. For the purpose of certificating in the New York Cotton Exchange?

Mr. MARSH. And for delivering it on contracts.

Mr. BURLESON. For the purpose of certificating it for the New York Cotton Exchange?

Mr. MARSH. It must be certificated to deliver.

Mr. BURLESON. To be delivered on the New York Cotton Exchange?

Mr. MARSH. Yes.

Mr. BURLESON. On contracts for future delivery?

Mr. MARSH. Certainly.

Mr. BURLESON. Now I want to ask you if you do not think there is extreme danger in permitting a committee of active members of the exchange to fix the difference in value between grades, in the month of November, to obtain until the following September?

Mr. MARSH. I do not approve, myself, of that method of arriving at the valuation of different grades of cotton.

Mr. BURLESON. Why don't you approve of it?

Mr. MARSH. Because I think the different grades of cotton ought to be valued on the basis of their value to the spinner.

Mr. BURLESON. Their value to the spinner is fixed by the demand of the spinner for that particular grade of cotton, is it not?

Mr. Marsh. What is that?

Mr. Burleson. Their value to the spinner is fixed by the demand of the spinner for that particular grade; the law of supply and demand would fix the value of it, so far as the spinner was concerned, and its value would depend upon the number of bales of a particular grade and the number of spinners who wanted that grade of cotton?

Mr. Marsh. The value to the spinner is determined by what he gets out of a given grade in the shape of yarns and goods, as against what he gets out of middling.

Mr. Burleson. You mean, you would determine it as to its spinning value, as against the value determined by commercial conditions?

Mr. Marsh. What do you mean by "commercial conditions?"

Mr. Burleson. The amount of a particular grade, for instance, and the demand on the part of the spinners for cotton of that particular grade.

Mr. Marsh. I would fix it upon the basis of what it is worth to the spinner.

Mr. Burleson. How many members of the exchange agree in that view?

Mr. Marsh. I never counted them.

Mr. Burleson. As a matter of fact, there is a faction on the New York Cotton Exchange who do not concur in the view that this system in vogue is the best system of fixing differences in values of grade, is there not?

Mr. Marsh. A faction?

Mr. Burleson. Yes.

Mr. Marsh. I do not know of any such faction on the New York Cotton Exchange.

Mr. Burleson. Is there any division of opinion as to whether——

Mr. Marsh. Undoubtedly; there are great diversities of opinion.

Mr. Burleson. Well, what proportion of the members of the exchange approve of the present plan for fixing the differences in value of grades?

Mr. Marsh. At the present time?

Mr. Burleson. Yes.

Mr. Marsh. There is no way on earth of our telling that.

Mr. Burleson. Well, take the last time you had a test of the proposition?

Mr. Marsh. We have never had a test of the proposition since it was originally adopted by a two-thirds majority.

Mr. Burleson. Is it not a fact that the majority of the New York Cotton Exchange are now in favor, or were a couple of years ago, of changing your present rule for fixing differences between grades?

Mr. Marsh. We had no vote upon it. I have no earthly way of telling whether a majority are or are not in favor of it.

Mr. Burleson. I will ask you if the suggestion was not made that instead of fixing differences in September and November, that one more month for fixing the differences should be added?

Mr. Marsh. Yes; that suggestion was made.

Mr. Burleson. Was it voted upon?

Mr. Marsh. It was voted upon.

Mr. Burleson. How was the vote?

Mr. Marsh. The vote was a tie.

Mr. BURLESON. Was not the vote on that proposition 163 in favor of the change, and 123 against it; it being lost because it failed to receive two-thirds vote in its favor?

Mr. MARSH. Those are not the figures that I have in my mind.

Mr. BURLESON. The New York Journal of Commerce and Commercial Bulletin is in favor with you exchange people, is it not?

Mr. MARSH. I don't see what that has to do with it.

Mr. BURLESON. I want to get at the truth, as to whether or not they would misrepresent the New York Cotton Exchange, to its prejudice.

Mr. MARSH. Well, this was a matter of history. My impression is that the chairman of this committee has the exact figures of the vote on this occasion. I heard, before I left New York, that the chairman of this committee requested that the figures of that vote should be reported to him, and if that is correct, if I am correct in that, there is no use in discussing the question, because it is a matter of fact that may be determined.

The CHAIRMAN. It may be among my papers, but I have not seen it.

Mr. NEVILLE. I have those figures here.

Mr. BURLESON. Was not that the vote, as I have given it?

Mr. MARSH. Mr. Neville said his impression was that the vote was 100 to 100, and that was my impression. But I do not attempt to carry in my memory the exact figures of all the votes which are taken on the New York Cotton Exchange.

Mr. NEVILLE. Here you are [handing witness a memorandum].

Mr. MARSH (reading). "One hundred yeas and 100 nays."

Mr. BURLESON. When was that vote taken?

Mr. MARSH. The 13th of November, 1907.

Mr. BURLESON. I referred to the vote on the 25th of January, 1907. At that time, was not the proposition voted upon, and was it not published in the newspapers the next morning? I refer to the vote on the 25th of January, 1907. Was there not a vote upon that proposition; was there not a vote on the elimination of certain of the quarter grades?

Mr. NEVILLE. Will you pardon my suggestion? You have read the vote. Would you mind reading what they voted on? Perhaps that would give us some light on the subject we are discussing. I think there was something else that you had in mind that was voted upon.

Mr. BURLESON. I have this data here. I clipped it from the New York paper myself. [Reading from the New York Journal of Commerce and Commercial Bulletin, January 25, 1907:]

The New York Cotton Exchange yesterday adopted by ballot the amendment proposed by the manager to its by-laws, which makes strict low middling stained the lowest grade of cotton deliverable under exchange contracts. The change will take effect in January, 1908. An amendment was also adopted eliminating all the quarter grades.

The proposed amendment changing the dates of meetings of the revision committee from the second Wednesday in September, and the third Wednesday in November to the third Wednesday in September, November and February, was not carried, considerable opposition having developed to this feature by Wall street and spot houses, as shown by the following circular, which all members found in their mail yesterday morning:

"We, the undersigned, are of the opinion, after giving the subject considerable consideration, that it would not be advisable to have another revision of differences

etween grades of cotton commencing February, 1908, as it would have an unsettling ffect on the market by restricting transactions during December and January.)perators would do very little during that period, pending the uncertainty of Febuary revision particularly Europeans, who at times do a large business. The importers and jobbers in coffee have no fear of further revision, as the coffee exchange bolished the rule for fixing differences after it adopted the present differences between rades.

"A vote by ballot will be taken at our exchange to-morrow, Wednesday, January 23, etween 11 a. m. and 2 p. m.

"We hope you will be present. If you can not, proxy can be used, which will be urnished by Henry Hentz & Co., or some of the signers of this.

"Henry Hentz & Co.	Henry Clews & Co.
"Stephen M. Weld & Co.	C. B. Guest & Co.
"Fernie, Wilson & Co.	W. R. Craig & Co.
"T. M. Robinson & Co.	C. E. Rich & Co.
"William Ray & Co.	Latham, Alexander & Co.
"Hopkins, Dwight & Co.	Siegf, Gruener & Co."
"Shearson, Hammill & Co.	

The vote on the first two amendments was overwhelmingly in favor, but the figures on the revision amendments were 163 in favor and 123 against it, it being lost because it failed to receive a two-thirds vote in its favor.

Mr. Marsh. I had forgotten that any vote was taken at that time on the proposition to increase the number of revision dates. The occasion which I had in my mind was the 13th of November, 1907, when a vote was taken on the proposition to make the number of revision dates three instead of two, and on the 13th of November, 1907, the vote was yeas 100, nays 100, which shows a very considerable change in sentiment from the vote which Mr. Burleson reads.

Mr. Burleson. What is the date of that?

Mr. Marsh. November 13, 1907.

Mr. Burleson. This was January, 1907. Is it or is it not a fact that vote took place?

Mr. Marsh. I don't remember it myself, sir. I presume it did, from the fact that you have a report from a reputable paper that it did take place.

Mr. Burleson. I will ask you what influences the members; is there any pressure brought to bear upon the members to vote a particular way upon this amendment?

Mr. Marsh. Not in the least.

Mr. Burleson. Is there a vestige of truth in this, or is it a "fish story:"

"The people who believe in reforming the New York contract have the votes," said one prominent member, "but the old machine has the organization." There has been a great awakening among the members, but at the same time the people with business to give out to other members usually get what they want, and the machine may win again, although it is to be remembered that the last annual election was not a victory for the revision of November, 1906.

Is there any truth in that statement, taken from the same newspaper?

Mr. Marsh. Not a vestige of truth.

Mr. Burleson. No such influences are brought to bear by members of the exchange who deal in large volumes of cotton or who deal in large transactions on the cotton exchange, on these brokers who have a vote upon the proposition, suggesting that they will not give them their business unless they vote in a particular way?

Mr. Marsh. Not a vestige or iota of truth in it.

Mr. BURLESON. I am glad to hear you say so. [Reading further:]

It should not be overlooked, however, that a few very strong and influential firms, especially if they have representatives on the revision committee, may, in one way or another, create a sentiment that must necessarily influence the committee in their action. For instance, a large spot cotton firm, which also operates extensively in futures, might through its extensive brokerage payments easily influence some members of the exchange serving on the revision committee who were favored with its patronage. Indeed, it is alleged that precisely this thing has happened in New York, and moreover that such large operators have thus been able to influence the election of boards of managers and through them the appointment of revision committees.

What would you say, that that was true or false?

Mr. MARSH. I should say that that was an admirable illustration of what I said this morning to the effect that the report of the Commissioner of Corporations is so lacking in sound and exact knowledge of the facts and in sound and discriminating deductions from the facts that it carries no intellectual authority with any thinking member of the New York Cotton Exchange.

Mr. BURLESON. Now, one more question, and I will be through. You have heard the description of the condition or a state of facts read by me from Mr. Thompson. I want to ask you this question: Can such a condition of the market for futures in New York as charged by Mr. Thompson be brought about by the use of money or independent of current conditions as to supply and demand?

Mr. MARSH. It absolutely can not be brought about.

Mr. SIMS. Then Mr. Thompson's statement is not true?

Mr. MARSH. It is not true.

Mr. BURLESON. Not only not true as a fact but impossible of performance?

Mr. MARSH. Yes.

Mr. MENDELBAUM. You may have heard the statement of Senator Smith, of South Carolina, who came here and made what I considered a stump speech, in which he claimed that all the members of the New York Cotton Exchange stand together to rob the outsider, and then consider the line of questions propounded by Mr. Burleson, who tries to show the different factions that exist on the New York Cotton Exchange, can they happen at the same time or would that be possible?

Mr. MARSH. Of course Senator Smith's statement was made without exact knowledge of the facts, and he certainly would not have made it if he had been acquainted with the facts first-hand.

Mr. BURLESON. Bearing directly upon what Mr Mendelbaum said, you know Mr. Scales?

Mr. MARSH. Yes.

Mr. BURLESON. He was at one time a member of the exchange, was he not?

Mr. MARSH. I don't think so. I don't think he was.

Mr. HUBBARD. I think he was one of them.

Mr. NEVILLE. I don't know.

Mr. MARSH. He is not now.

Mr. HUBBARD. E. G. Scales was a member.

Mr. NEVILLE. Is that the letter the chairman read from the rostrum?

Mr. BURLESON. No; this is another one. [Reading:]

The cotton exchange is a good thing for the producer if their rules are fair, but as it stands to-day it would be best to put them out of existence, as they have their rules so that they can get the country in and then skin them.

Mr. MARSH. Is Mr. Scales the country?

Mr. NEVILLE. Mr. Chairman, I am no lawyer, but we are trying to get a record before this committee in proper shape, and personal allusions without the appearance of the witness to be cross-examined is something that you have studiously avoided up to now, and I consider that in all fairness the admission of such letters as that in the testimony is contrary to the policy that you adopted when you started this investigation.

The CHAIRMAN. As I understand it, Mr. Burleson only used that expression as a postulate for a question. If there is any other present it does not appear.

Mr. NEVILLE. I move it be stricken out, because if Mr. Scales had that view he ought to be here for cross-examination.

Mr. BURLESON. In view of that I will read the entire letter. [Reading:]

THE WALDORF-ASTORIA,
New York, February 14, 1910.

Hon. A. S. BURLESON,
Washington, D. C.

DEAR SIR: The inclosed copy of a letter I wrote explains itself. If you can force the New York Cotton Exchange to change its rules so that the spinner can buy a certain grade of cotton on the exchange and get what he buys at once instead of something else, you will have done the whole South the greatest service you could possibly do.

While the New York future contracts sentimentally regulate the price of cotton in the South, that contract is so unfair to those who buy it, by forcing them to accept something that they don't want, that it is a menace to legitimate trade and has the effect of keeping prices unnaturally low. If changed as I suggest, it will advance the price of spot cotton and then cotton buyers and spinners will have a hedge contract closely related to spot cotton. I live in Dallas, am familiar with the future markets, and experience has shown me that the change I suggest is what is needed. The cotton exchange is a good thing for the producer if their rules are fair, but as it stands to-day it would be best to put them out of existence, as they have their rules so that they can get the country in and then skin them. If I could talk with you personally I could give you some valuable pointers. I am a planter and raise on my Texas farms about 1,000 bales of cotton each year. I want the exchange, if run on a fair basis; otherwise want it closed up.

Judge Rufus Hardy, Senators Gore, Culberson, and Bailey all know me personally.

H. L. SCALES,
Care of Waldorf Hotel.

I never saw him.

Mr. NEVILLE. That is another Mr. Scales altogether. I don't think he has ever been a member of our exchange. Mr. Hubbard tells me he thinks Mr. E. G. Scales was a member. I move that that letter be struck from the record. If he has such an interest in the matter as he says he has he would be here to-day and not writing a letter.

The CHAIRMAN. I can hardly recognize your right to make a motion.

Mr. NEVILLE. I will make the request then.

The CHAIRMAN. I will take the suggestion into consideration, and unless the members of the committee feel differently from my own view of the case and wish another order made, I would remark that

this letter seems to be merely an expression of opinion. It does not attempt to state a fact, and the committee would certainly take that into consideration.

Mr. SIMS. In other words, the weight to be given it will be judged.

Mr. HEFLIN. I agree with the chairman that it is perfectly competent for the gentleman to write his opinion, give his views.

The CHAIRMAN. That matter is disposed of. I would like to ask Mr. Marsh a question or two. I would like to call attention to the value of the property owned by the Cotton Exchange of New York. Can you give me an estimate of its value?

Mr. MARSH. My impression is it is worth about a million dollars.

The CHAIRMAN. Could you give me any idea aside from a mere guess as to the credits that are carried by the members of the exchange in the form of balances due their various customers throughout the country?

Mr. MARSH. There is no way to do that, Mr. Chairman. Those are matters of individual competing firms, and naturally no such information can be available.

The CHAIRMAN. I believe you said in reply to a question the other day that no fixed sum in the way of a margin was required.

Mr. MARSH. Yes; I so stated.

The CHAIRMAN. So that the volume of business done on the exchange, if that could be obtained, would throw no light on the question of the amount of money that was thus tied up?

Mr. MARSH. Not the slightest.

Mr. BEALL. I would like to ask a few questions.

Ordinarily, when does the new-crop cotton begin its movement?

Mr. MARSH. We have artificially divided the crop years, as you know, at the end of August and the beginning of September. There commonly is, however, some small movement at the end of August.

Mr. BEALL. During the months of August, September, October, and November is when the bulk of the crop is in the hands of the producer or passes out of the hands of the producer?

Mr. MARSH. Yes.

Mr. BEALL. I understand that in this particular year there has been a constant advance, that there was a constant advance in the price of cotton even from the beginning of the season.

Mr. MARSH. Yes.

Mr. BEALL. Almost up to the present time?

Mr. MARSH. Yes.

Mr. BEALL. I will ask you if that experience was not a little out of the ordinary, if the ordinary rule has not been during those months as the supply of cotton has increased there has been a tendency for the price of the cotton to go down during the heavy part of the marketing season.

Mr. MARSH. On the contrary, though this is not the current opinion, the statistics show that in an overwhelming majority of the seasons for many years past the fall months, the months when the producer is selling his crop most heavily, have shown the highest markets. On that point I would like to say that I think one of my colleagues here has some exact figures for a long series of years showing precisely in what years the fall market was higher than the spring market, and in what years the spring market was higher than the fall market. I have not seen those figures.

Mr. BEALL. I am not attempting to compare the price of the fall market with the price of the spring market, but comparing the price of cotton in October and November. Take October, for example. Has not the ordinary rule been that the prices for October would be lower than the price at the beginning of the season, the tendency as the cotton was gathered and accumulated upon the market by the farmers to depress the market price?

Mr. MARSH. I have not the exact figures on that. I think that the figures on that point would be somewhat misleading anyway, for the reason that it very often happens that the end of a given crop year has so reduced the amount of cotton for sale that those spinners who have not been forehanded, who have to have some actual cotton, are obliged to pay more for it to get it at once than they would have to pay if they waited a little longer. There is a disturbing element in the situation which I think would make the particular figures that you desire rather misleading.

Mr. BEALL. And you think that some other gentleman has actual figures that he can submit?

Mr. MARSH. I think so.

Mr. HAUGEN. I understood you to say that contracts for future delivery do not call for any special grade.

Mr. MARSH. They do not, sir.

Mr. HAUGEN. Are we to understand, then, that they may dump on to the exchange any grade of cotton which they may produce?

Mr. MARSH. Oh, no. I did not understand your point, sir. Of course the cotton which the merchants of the exchange recognize to be unfitted for spinners' use is not deliverable on contracts in the New York Cotton Exchange.

Mr. HAUGEN. Then there is a grade; it has to come up to a certain grade?

Mr. MARSH. Oh, certainly. The rule is that no cotton below good ordinary in grade is deliverable. The line is drawn at good ordinary white cotton.

Mr. HAUGEN. Does the same rule apply as to the delivery and as to accepting it?

Mr. MARSH. How do you mean, sir?

Mr. HAUGEN. As I understand it, if I sell a dozen bales to be delivered to New York before the exchange, that calls for certain kind of grade, and if I buy I get the same kind of grade?

Mr. MARSH. Certainly. The grade is the same whether you buy or sell.

Mr. HAUGEN. Is there any considerable number of sales delivered in compliance with these contracts?

Mr. MARSH. From a half a million to three-quarters of a million bales a year.

Mr. BEALL. What is the smallest number of bales you have ever known to be in stock in New York during the cotton season?

Mr. MARSH. I have known the stock in New York to be as low as 5,000 bales; but I think that was only in August, if my recollection is correct, and not in the active cotton season.

Mr. BEALL. There have been numerous instances in which practically all the cotton that was in stock in New York was owned by one or two persons, have there not?

Mr. MARSH. Oh, yes.

The CHAIRMAN. You said before the committee adjourned this forenoon that you wanted to make a few remarks in regard to the bill before the committee. Would you like to do that now?

Mr. MARSH. Yes, I should.

The CHAIRMAN. You may proceed with your statement, then.

Mr. MARSH. What I have to say will not take much of the committee's time.

Not being a lawyer, Mr. Chairman, I have not been able to determine the legal implications of the different bills which I have understood are before the committee; but in the first place I should like to call the attention of the committee to the possibility that any or all of these bills as they now stand may have consequences which the committee itself would hardly expect.

All these bills as they now stand simply prohibit one very important feature in the business of a spot cotton merchant. In the conduct of the business of a spot cotton merchant hedges are bought and sold, not merely on the New Orleans exchange, the New York exchange and the Liverpool exchange; hedges are being constantly bought and sold all over the lot, so to speak. They are consequently being bought and sold on the floor of the Houston exchange and on the Memphis exchange; but not in the same manner, at open outcry, as the by-laws of the New York Cotton Exchange call for; but still essentially the same thing.

Now, to bring that point out, I should like to give an illustration of just what I mean. Suppose I am a spot merchant in the South and I have offered to me a thousand bales of cotton running from low middling up to, we will say, strict middling. On that same day, or simultaneously, I receive an offer from a spinner for a thousand bales of good middling cotton. In the thousand bales of cotton which I have bought in the South there is no good middling, but my spinner wants a thousand bales of good middling cotton, we will say, for shipment to him a month or two months or three months ahead. Now, any spot merchant will buy the thousand bales of low middling to strict middling and will sell the thousand bales of good middling and will regard the sale of the thousand bales of good middling to a spinner or to a merchant as a hedge against the thousand bales of actual cotton which he has bought.

That spot merchant selling a contract to the foreign merchant or to the spinner for the future delivery of a thousand bales of good middling cotton has entered into a form of future contract just as distinctly and in its legal obligations exactly similar to a contract which he might enter into upon the New York Cotton Exchange for future delivery of a thousand bales of May or July. But under the terms of the bills, as I have read them, that spot merchant not having in his possession a thousand bales of good middling cotton, not growing it on his land, not having it in his possession in any way or on the point of taking it into his possession, would be legally violating the provisions of the act which might result from these bills.

Now, the extent of the disturbance that would be created among spot dealers by running into that complication would be very great indeed, and a multitude of transactions, amounting in the aggregate to millions of bales, would, as I see the matter, be made illegal.

The CHAIRMAN. I think, Mr. Marsh, that most of these bills, provide that if there exist in the mind of the seller the bona fide inten-

tion to deliver the cotton, no inhibition is put upon his activities in any way.

Mr. MARSH. Well, Mr. Chairman, of course when you get onto the question of intentions you get into very muddy waters. It constantly happens that a spot merchant sells a thousand bales of cotton to a foreign merchant or to a spinner intending at the moment when he makes the trade to make the actual delivery himself, and yet before the time for fulfilling the contract comes around he sells out his contract or buys in his contract from some other merchant in the South. In other words, exactly the same process, Mr. Chairman, is going on, not in a concentrated and visible way, but none the less going on, all over the South, that is going on on the floor of the New York Cotton Exchange.

The CHAIRMAN. Is not that provided for by this language in the bill I have before me, in the section in which provision is made by the filing with the telegraph company of an affidavit on the part of the sender of the message, which shall state among other things that he has the bona fide intention of "acquiring and delivering said cotton, grain, or other farm products." Now, that does not imply that he has already made a contract for it or that it is growing on his land or the land of some other person with whom he has made a contract; it only requires him to make an affidavit that he has the bona fide intention of acquiring and delivering the cotton in accordance with the terms of his contract.

Mr. MARSH. Mr. Chairman, I am not lawyer enough and not a sufficiently clear thinker in legal matters to say whether that clause would be a sufficient protection; but I got the impression from the language of the bills that the tests that were to be imposed upon dealers with regard to the bona fides of their intentions were such that in transactions such as I have described considerable impediments and confusions would result. I should like to say on that point that I simply bring this up as a difficulty which has arisen in my mind with regard to the bills, and which I should like to call to the attention of the committee as a matter which might be very easily overlooked by the committee through the fact that all these multitudinous transactions through the South do not come to the surface, so to speak, like the transactions which take place on the floor of one of the great cotton exchanges.

The CHAIRMAN. We are very glad to have your suggestions on those lines. Have you anything further?

Mr. MARSH. Now, from the point of view of the legal side of the matter, I should like to suggest to the committee a question whether these contracts which are entered into in New York are or can be made interstate commerce. As members of the committee are undoubtedly aware, the New York Cotton Exchange is a New York corporation, a corporation chartered by the assembly of the State of New York. The contracts which are made upon the New York Cotton Exchange must be made in the State of New York. It is impossible to make a contract on the New York Cotton Exchange except where both parties to the contract are physically present in the State of New York. It is impossible for me or anybody to make a contract on the floor of the New York Cotton Exchange if I am not physically present in New York. I can not, for example, send a telegram from Washington—although I am a member of the

exchange—I can not send a telegram from Washington to another member of the exchange and make a contract with him. What I have got to do, if I desire to enter into a contract in New York, is to send a telegram to a member there to make a contract for me with another member. In other words, these contracts are strictly limited to contracts made by persons physically in the State of New York.

Not only is that true, but these contracts call for the delivery of cotton only in the city of New York or in the port of New York. Thus the contracts are very determinately, completely, and wholly made within the State of New York. Now, Mr. Chairman, it does not change the legal aspect of the matter, as I understand it, that the cotton which may be delivered in the fulfillment of one of these contracts is to be obtained or has been obtained outside the State of New York. For example, it is not interstate commerce for a man to contract for the erection and delivery in the city of New York of an office building, though the contractor knows that the marble for that building is to come from Vermont, the steel from Pennsylvania, the lumber from Georgia, or Mississippi, or Texas, or Oregon, and the cement from Kansas. Neither is it interstate commerce for a man in Pennsylvania to send instructions to an agent of his in New York instructing him to contract with another man in New York for the construction and delivery of an office building subject to all these conditions which I have just described. In other words, sir, I think the committee will find on careful study of the exact terms of the contract entered into upon the New York Cotton Exchange that it is absolutely and completely a contract limited to the State of New York.

I simply suggest this as a point for the committee's consideration and there is only one other point which I should like to bring to the committee's attention, and that is, that legislation such as is proposed here may have, if enacted, effects of an incalculable character. For example, it can hardly be known to many members of this committee that the fact that the stock of cotton of the world was hedged in New York during the past year has had a most vital influence upon the balance of trade in this country. The remittances of foreign merchants who were carrying cotton in Bremen, and Havre, and Milan and Genoa, and Liverpool, with hedges sold in New York, the remittances of those merchants during the past year to New York can not possibly have been less than $75,000,000. They probably were very much more than that. They were probably a good deal over $100,000,000.

To destroy a business which, as one of its factors so vitally affects the balance of trade in this country and which if it had not existed this year would certainly have produced financial confusion in the country—because the withdrawal of another $75,000,000 or $100,000,000 of gold in this country would certainly have produced widespread financial confusion—I say to disturb a business which has such far-reaching consequences may lead to results which members of the committee themselves could hardly foresee.

I dwell upon this as simply one of a large number of complications which would certainly arise in the business of the country if this method which cotton merchants have worked out for the distribution

of the crop of cotton from the producers to the ultimate consumers were to be impaired.

I think that is all I have to say, sir.

The CHAIRMAN. Mr. Marsh, the committee appreciates very much the patience with which you have submitted to this long and rather tedious examination, and is very much obliged to you.

Mr. MARSH. I am grateful for their patience.

Mr. NEVILLE. I would rather start to-morrow morning.

The CHAIRMAN. Then we will adjourn.

(Thereupon the committee at 4.30 p. m. adjourned until 10.30 a. m., Wednesday, February 16, 1910.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Wednesday, February 16, 1910.

The committee met at 11 o'clock a. m., Hon. Charles F. Scott (chairman) presiding.

The CHAIRMAN. Before the hearing proceeds this morning I should like to announce that it seems as if we can not protract this branch of our hearings beyond to-morrow. Friday, the 18th, has been set as the date for giving a hearing to representatives of the Council of North American Grain Dealers, who are coming here from Chicago and other cities, and who have written me that they are very anxious to have their hearings promptly in order that they may get away as soon as possible. With the close of to-morrow we will have given one entire week, with the exception of one day, to the cotton branch of the matter, and I think the committee feels as if the ground had been pretty well covered. We do not wish to unduly limit anybody in the matter of time, but we will request those who are yet to be heard to make their statements as concise as possible, and I will suggest to those who have questions to ask that, so far as may be, they limit their questions to such a form as will elicit direct information rather than lead to an argument or to controversy.

Mr. MANDLEBAUM. Do I understand you to say, Mr. Chairman, that the cotton part of this investigation is to be closed to-morrow?

The CHAIRMAN. That is the wish of the committee. Mr. Neville, I believe you would like to appear first this morning.

TESTIMONY OF MR. GEORGE W. NEVILLE.

(The witness was sworn by the Chairman.)

Mr. NEVILLE. Mr. Chairman, as this hearing has progressed it has seemed to me, judging from the questions asked by members of the committee, that the southern members, and when I say the southern members, I mean the members living in the cotton-producing states, are the only ones of the committee who are familiar with the process of marketing the crop by the producer, and it occurred to me that perhaps it might be of assistance to your committee for me to outline that in brief. I know that we have consumed a great deal of your time in making our statements, but it seems to me that that might be very essential to the matter, and with your permission I will do so.

The CHAIRMAN. That statement, briefly, I think will be interesting to the committee.

Mr. NEVILLE. I think I can make it in a brief way, so that the members can understand it. Mr. Chairman, I am glad to say that the high prices obtained by the producers of cotton these past several years and the diversification of crops in certain sections of the cotton-producing States have placed the southern farmer in financially a much stronger position than was his, say, ten years ago, with the result that the amount of acreage planted in cotton on money advanced by country merchants has diminished perceptibly, so that to-day I will say, on a rough estimate, perhaps 25 per cent of the cotton raised in the Southern States is raised on money furnished by country merchants to the small planter.

There is another phase of it. Large landowners allow small farmers to plant so many acres, and they are known as croppers. They, in turn, are supplied with provisions and material for raising the cotton by those landowners.

There is another kind, the farmer who plants his own land; and he may have occasion to borrow money.

There is another, the man who is well enough off to plant his own crop without borrowing any money.

The first three I have mentioned, as a rule, sell their cotton to the country merchant; the first I mentioned because they have to, because the merchant has a lien on their crop and everything else they have. The second class do it because the merchants try to buy it for the trade there may be in the cotton when they pay cash for the cotton. In former times the larger planters always consigned their cotton to factors at the various ports. This entailed a large expense in marketing that crop, because in addition to the advances which they had to have in the spring of the year in order to plant their cotton, on which a commission was charged, a similar commission was charged for selling the cotton when it was marketed, and a commission was charged for all supplies bought and sent to the plantation. This has been gradually eliminated, until to-day in the leading southern ports, such as Norfolk, Wilmington, Charleston, Savannah, Mobile, New Orleans, and Galveston, what has been commonly known as the factor's business has decreased remarkably, due to two reasons, the first, as I have said, being the better financial condition of the farmer, and secondly, increased transportation facilities. That, I think, Mr. Chairman, covers the matter.

So much has been said that I hardly know just where to start in my direct statement, and as I represent my firm of Weld & Neville, of Texas, in the handling of spot cotton, perhaps it would be better, for me to just jump right into the matter and describe the way in which we are willing to assist in the distribution of the cotton crop.

The CHAIRMAN. Before you start your statement will you state, so that it may go into the record, the character of your business, and what your business connections are in the trade you personally handle?

Mr. NEVILLE. We are merchants engaged in the buying and selling of spot cotton to American spinners and to spinners of other countries, wherever American cotton is spun.

The CHAIRMAN. Are you a member of the New York Cotton Exchange?

Mr. NEVILLE. Yes; I am a member of the New York Cotton Exchange and the New Orleans Cotton Exchange, and an associate

member of the Liverpool Cotton Association. I will state to the committee, not in reply to your question, as perhaps it is necessary to do that in order to have the record clear, that when Japan is in the market buying cotton we do from 30 to 50 per cent of the exports to Japan, due to visits that I have made to that country with a view of seeing what their requirements were and how they handled the business.

This is an export country, Mr. Chairman. Roughly speaking, we export twice as much cotton as we consume in this country. The proportion used to be larger, but owing to the increase of spindles in this country, I am glad to say it is getting less. There are several things that seem to me important to put before this committee, one of which is that the spinner as a rule wants to buy cotton when the producer is not in position to sell it, and the producer wishes to sell it most when the spinner is apparently least interested in it. That is caused first on the part of the spinner because in the spring of the year and early summer he may have an opportunity of selling the product of his mill, covering a long period of delivery, through the jobber or wholesaler, and the prices he gets for those goods enable him to come to the merchant and make a contract for a specific quality of cotton which he requires in the manufacture of the product which he has sold. The merchant, to protect himself, could not do this business unless he had such facility as the future contracts of cotton, to buy to protect himself against the sale he had made to the spinner.

Then comes the marketing of the crop, when the farmer wishes to sell his product. The merchant having committed himself to the spinner, buys the farmer's cotton, and as he buys the farmer's cotton he sells the futures that he has bought as a hedge. The price the merchant pays the farmer is of no consequence to the merchant. The price is based entirely on the market value of the raw cotton, based on its supply and the demand. There are times in the marketing of the crop when the merchant has filled all of the sales he has made ahead to the spinner, the spinner has cotton to spin, and the farmer then wants to sell his cotton at a time when the spinner does not care to buy; and then the merchant comes in, and as he buys the spot cotton from the farmer he sells his contracts as a hedge against the spot cotton he has taken from the farmer at a time when the spinner is not buying.

At this point, gentlemen, I am ready to answer any questions you might want to ask.

The CHAIRMAN. Has the committee any questions?

Mr. LEVER. I do not know that I quite catch the drift of Mr. Neville's argument. Let me ask him this question: When you buy the spot cotton as a merchant, you sell against it, on the exchange, futures as a hedge?

Mr. NEVILLE. Yes.

Mr. LEVER. Does not that put you in the attitude of a bear on the market?

Mr. NEVILLE. Not at all.

Mr. LEVER. Why not?

Mr. NEVILLE. Simply because I have bought something which I can not find any demand for from a consumer. If I did not have the facility of selling future contracts against that purchase, I would not

buy it; but there is the demand from some source for cotton at a price in the contract market. I buy the spot cotton and sell, and I satisfy that demand, and it does not put me in as a bear any more than the farmer who sold me the spots.

Mr. LEVER. But in order to make a contract you have got to have a purchaser?

Mr. NEVILLE. The purchaser is there. He is bidding for the cotton.

Mr. LEVER. He is bidding for the cotton. There is a contract entered into between you and the buyer of your hedge?

Mr. NEVILLE. Yes.

Mr. LEVER. In order for you to make a profit out of your contract, it seems to me that the price of futures must break.

Mr. NEVILLE. Not at all. I have seen the market go up absolutely day by day when the spot cotton was being sold as hedges.

Mr. LEVER. What would be the effect if you had sold a hedge when the market was going up gradually?

Mr. NEVILLE. The value of my spot cotton was increasing as the market went up.

Mr. LEVER. And the value of your hedges was decreasing as the market went up?

Mr. NEVILLE. Yes.

Mr. LEVER. So that you had a stand-off?

Mr. NEVILLE. Where the value of my hedges was decreasing, and I was supposedly losing on my spot cotton.

Mr. LEVER. What is the general situation with reference to that? Do the spots and hedges go up and down in a parity with each other?

Mr. NEVILLE. They do if the situation is a normal situation.

Mr. LEVER. So that your hedging, then, is purely for the purpose of protecting yourselves and not for the purpose of making money out of it?

Mr. NEVILLE. My hedging is purely for the purpose of protecting myself against fluctuations in the commodity.

Mr. LEVER. In the raw commodity?

Mr. NEVILLE. Yes; in the raw commodity.

Mr. BEALL. When you buy cotton from the farmer for which you have no contract with the spinner, and sell your hedges in the future market, when you bring that down to its last analysis you are buying that cotton as a speculation, are you not?

Mr. NEVILLE. No, sir; I do not consider it so.

Mr. BEALL. Well, you have not sold it?

Mr. NEVILLE. No.

Mr. BEALL. In advance?

Mr. NEVILLE. No.

Mr. BEALL. And you do not know what the demand will be in the future for it? You do not know whether it will go up or go down?

Mr. NEVILLE. That is based on years of experience.

Mr. BEALL. You buy it in the hope that when there comes a demand for it you will be able to sell it for a profit?

Mr. NEVILLE. No; we buy it knowing there is going to be a demand for cotton of that kind at some price.

Mr. BEALL. And expecting to sell it at a profit?

Mr. NEVILLE. Yes.

Mr. BEALL. You say that when conditions are normal in the price of spot cotton and the price of futures there is maintained a parity between them?

Mr. NEVILLE. I would not say that parity was fixed always.

Mr. BEALL. Take normal conditions; what is ordinarily the difference between the price of middling spot cotton and middling futures? Which is the higher and which is the lower?

Mr. NEVILLE. Very often the spot price is much lower than the future contract for the current month. Sometimes it is the reverse.

Mr. BEALL. That shows an abnormal condition, does it not?

Mr. NEVILLE. No; that shows a normal condition.

Mr. BEALL. Is it not a fact that where conditions are normal, the price of futures is a few points below the price of spots?

Mr. NEVILLE. No, sir; that is an abnormal condition, when that happens. I am understanding you to refer to the price of spot cotton sales as compared to the futures in New York. My answer is predicated on that.

Mr. BEALL. Spot cotton in New York as compared to the price of futures in New York?

Mr. NEVILLE. The price of spot cotton in New York is for even-running grades, and the price of contracts is the basis price, which takes in all the grades we deliver on contract.

Mr. BEALL. How does that price compare with the price of futures at New York?

Mr. NEVILLE. Sometimes it is higher, in normal years.

Mr. BEALL. About how much, under normal conditions?

Mr. NEVILLE. Under normal conditions it runs from 25 to 35 points on contracts.

Mr. BEALL. Twenty-five to 35 points?

Mr. NEVILLE. Yes.

Mr. BEALL. What conditions must exist in order that the disparity between the two prices should become very much greater than 25 or 35 points, or much less than that?

Mr. NEVILLE. It depends upon the average quality of the crop, and the demand for the higher or lower grades being in excess of the supply.

Mr. BEALL. The demand for the grades lower or higher than middling cotton does exert an influence in fixing the price of those grades?

Mr. NEVILLE. Yes.

Mr. BEALL. Do you think it should exert an influence in fixing those prices?

Mr. NEVILLE. Certainly.

Mr. BEALL. Then you do not agree with Mr. Marsh, as I understood his statement to be that the price of those grades ought to be fixed by their value as a spinnable article?

Mr. NEVILLE. We were speaking on two entirely different subjects, if you will excuse me. The line of questions you asked me is not the same that Mr. Marsh was on.

Mr. BEALL. I understood him to say that in fixing the price of cotton below middling, the difference between that price and the price of middling should be determined by the spinnable value.

Mr. NEVILLE. Yes; I am in thorough sympathy with that, sir.

Mr. BEALL. Well, does the supply of that particular grade of cotton or the demand for that particular grade of cotton have anything to do with fixing that difference?

Mr. NEVILLE. It may have a temporary effect when the supply of grades below middling is superabundant and the demand for the time being does not run on those grades; but experience has proven that in the course of a very short time the values of those grades do get back to practically their spinning value as compared to middling cotton.

Mr. BEALL. The value of low middling, for example, from the standpoint of its spinning value, always bears the same proportion to the value of middling cotton as a spinnable article?

Mr. NEVILLE. Yes; I will say that is so.

Mr. BEALL. Low middling this year bears the same proportion to middling that low middling last year bore, so far as spinnable quality goes?

Mr. NEVILLE. Yes; there may be some climatic conditions that affect it.

Mr. BEALL. It always comes back in that proportion?

Mr. NEVILLE. Yes.

Mr. BEALL. Yet there are times when for months in succession that relative value is not maintained?

Mr. NEVILLE. Yes.

Mr. BEALL. What makes that disparity?

Mr. NEVILLE. Panic on the part of the holders, brought about by adverse talk on the supply of the crop by people who have an interest in talking that particular quality down. That is my opinion; you ask it; I give it to you.

Mr. BEALL. Do you think that was a condition that prevailed in 1906?

Mr. NEVILLE. I think it was more accentuated in 1906 and 1907 than ever in my experience in the cotton business, which embraces a period of twenty years.

Mr. BEALL. You think that was the cause of the disparity in 1906?

Mr. NEVILLE. That was one of the causes. There were at least three causes, in my opinion, that brought about a wide disparity of low grades that year as compared to middling.

Mr. BEALL. What were they? That may be anticipating something you may have been intending to bring in later on.

Mr. NEVILLE. It is anticipating something that I want to say, but it comes in very well right here. I would rather answer it right now, with the permission of the chairman.

The prime cause, Mr. Chairman, of the disparity, so-called, between middling, even running—and I want the committee and my farmer friends here to bear this in mind, because it has not been touched on here by anyone and I have never seen it in print—the primal cause, in my opinion, for the disparity between the price of middling cotton, even running, which is the basis which the world has fixed for arranging prices on this particular commodity, and the price of the basis middling contract, was this, that when middling, even running, was quoted at so many points over the low middling contract, there was practically no middling, even running, in the United States for sale. That was the first cause. The second cause was harping by people who professed to know; who circulated letters, wrote newspaper

articles, and made speeches at farmers' meetings, decrying the New York contract for the stock of cotton it carried, when the stock of cotton carried in New York represented the grade of cotton in the United States at that time. That is your second reason.

Mr. BEALL. All right.

Mr. NEVILLE. The third reason was the error made by the New York Cotton Exchange in fixing its differences, that season, gentlemen, as in other seasons, based on the spinning value of that quality as compared to middling cotton. The experience of years had demonstrated that while at times there might be some falling off from the value as fixed by that committee, there always came around a time when that cotton was in demand by the spinners at the differences fixed by the New York Cotton Exchange. Those, briefly, are my reasons.

Mr. BEALL. Now, in the three reasons that you have given, have you put any of the responsibility for the disparity upon the action of the New York Cotton Exchange?

Mr. NEVILLE. Yes; I told you it was one reason.

Mr. BEALL. You are willing to admit——

Mr. NEVILLE. I am willing to admit.

Mr. BEALL (continuing). That the New York Cotton Exchange, in fixing the differences in 1906, made a serious error?

Mr. NEVILLE. I am not willing to say, a serious error, in that meaning of the word. I am willing to say they made a mistake.

Mr. BEALL. Was it not a very great mistake?

Mr. NEVILLE. It was a great mistake; but some extenuation is found for it in this, that if I mistake not, the Agricultural Department on the 5th or 6th of December that year estimated the crop at about 12,300,000 bales. I want to say to the committee that I am a very poor hand for carrying figures of prices and movements in my head, and if I make a misstatement I hope some gentleman here will correct me. I think the estimate of the Department of Agriculture was about 12,300,000 bales. The crop estimates of private estimators—none of them exceeded 12,500,000 bales. The estimates of the Farmers' Union and the National Ginners' Association were under 12,000,000 bales. So that, gentlemen, anything that merchants had to base themselves on was accepted by that committee. Now, what happened? The weather that the Lord gave the farmers that caused that storm, put moisture in the ground. The picking season that followed extended into March, with the result that bolls as large as a hickory nut to a black walnut, which never in the experience of man, I don't care whether he was a horny-handed son of toil, as some orators call them, or anyone else, ever saw open or make cotton, which were as a rule plowed under, that year by a freak of nature popped at the point of the boll, and a machine was invented to throw them in by the shovelful, so that cotton was made that counted as bales, and was to a certain extent spinnable. That cotton has all gone out of existence; every bale of it has gone somewhere. That added over a million and a half bales to that cotton crop.

Mr. BEALL. You are talking now of the crop of 1906?

Mr. NEVILLE. I am talking now of the crop of 1906–7.

Mr. BEALL. Right there, I do not know what condition prevailed elsewhere, but as a matter of fact was not that an entirely different year from 1906–7, that this condition prevailed?

Mr. NEVILLE. No, sir.

Mr. BEALL. Was that the year you are referring to here, in which they threshed out cotton?

Mr. NEVILLE. Yes; and they have been threshing it ever since. The fact of the matter is that the people in Oklahoma tell me they are not going to handle cotton hereafter except by that method, because it is cheaper.

Mr. BEALL. I know that prior to 1906–7 that condition prevailed in the country. It was the year 1903–4 when that was done in Texas, and it has not been done to any considerable extent in Texas to my knowledge since.

Mr. NEVILLE. All that I have to say about that is, I handled some of the cotton and I know where I got it from, and I did buy it in Texas. I bought some in Oklahoma.

Mr. BEALL. Was that the first year you bought that cotton in any quantity?

Mr. NEVILLE. In large quantity. I think I am right in that statement, Mr. Beall. That crop of 1906–7, as given on page 2 of Shepperson's Cotton Facts, was 13,540,000 bales, in round figures; but it has been commonly looked upon as a 14,000,000-bale crop by the trade.

Mr. BEALL. You referred to a storm that occurred in 1906?

Mr. NEVILLE. Yes.

Mr. BEALL. This difference was fixed by your revision committee I think on the 21st of November?

Mr. NEVILLE. After the storm, yes.

Mr. BEALL. The storm occurred on the 28th day of September?

Mr. NEVILLE. Yes; it was after the storm.

Mr. BEALL. Is it not a fact that long prior to the fixing of this difference on the 21st of November the members of the New York Cotton Exchange were pretty well aware of the extent of the damage done by that storm?

Mr. NEVILLE. Yes; they were pretty well acquainted with the extent of the damage done by that storm, Mr. Beall, but they were also aware of the enormous commitments of manufacturers for goods and the enormous demand that we had for spot cotton; and in face of private crop estimates, where nothing exceeded 12,500,000 bales, it was natural, based on past experience, that no matter what there was of that crop up to 12,500,000 bales there would be a demand for it.

Mr. BEALL. I understand there is no standard fixed in the rules of the New York Cotton Exchange by which this revision committee is governed in fixing this disparity between different grades of cotton?

Mr. NEVILLE. There is no set rule as to the method that they shall pursue.

Mr. BEALL. In a matter of so great importance not only to the cotton producer but to the cotton merchant and others, do you not believe that there should be some fixed and definite rule to govern that committee in arriving at its conclusions?

Mr. NEVILLE. I think there is just as much discretion and just as much judgment shown by that committee in fixing their differences as there is in fixing the commercial differences in any southern market, and I say it without a fear of contradiction.

Mr. BEALL. Commercial differences in the southern market are regulated to some extent by the law of supply and demand?

Mr. NEVILLE. To some extent, yes, sir. I will accept that; to some extent.

Mr. BEALL. Is there anything that compels or requires this committee to take into consideration, even, that law on the New York Cotton Exchange?

Mr. NEVILLE. Yes.

Mr. BEALL. What is it?

Mr. NEVILLE. Based on the law of supply and demand, not at the time for those grades, but to their worth and what they will be worth to the mills before another crop comes around.

Mr. BEALL. Is it not largely governed by mere speculation as to what the demand will be in the future, or the supply in the future, months and months ahead?

Mr. NEVILLE. Mr. Beall, I would assent to the way you put it if I knew in just what way you meant "speculation."

Mr. BEALL. Well, guesswork?

Mr. NEVILLE. No; I would not say guesswork.

Mr. BEALL. Is it not a matter of guess?

Mr. NEVILLE. No, sir; anything that is founded on the results of the past experience of years is not speculation, nor is it guesswork.

Mr. BURLESON. You do not mean to tell Mr. Beall that there is anything in the rules of the exchange that requires you to take into consideration the spinnable value of the cotton?

Mr. NEVILLE. Wait a minute, now, Mr. Burleson. Mr. Chairman, I refer the committee to section 67 of the Rules and Regulations of the New York Cotton Exchange, on page 49, and if you want this made a part of the proceedings and to take the time to read it I will be very glad to read it.

The CHAIRMAN. I think you had better read it.

Mr. NEVILLE. It reads as follows:

SEC. 67. The committee on revision of quotations of spot cotton shall consist of seventeen members, representing the various interests of the exchange. At any meeting of this committee ten members shall constitute a quorum. If no quorum of this committee can be obtained, the president shall appoint a sufficient number of members of the exchange to form a quorum.

The duty of this committee shall be to meet twice a year, viz: on the second Wednesday of September and the third Wednesday of November at 3.30 o'clock p. m., and receive a report from the committee on spot quotations as to the state of the market; also suggestions or opinions from any member of the exchange regarding the revision of spot quotations.

The committee shall on the day of the meeting consider the report of the committee on spot quotations and the suggestions and opinions presented by members, whether in writing or verbally, and establish the differences in value of all grades, on or off, as related to middling cotton, which shall constitute the rates at which grades other than middling may be delivered upon contract. Its report shall be publicly announced by the superintendent at the opening of the exchange on the day following the meeting, shall be posted for five days upon the bulletin of the exchange, and shall be printed in the official circular of the exchange.

The rest of it I do not think necessary to read. I will leave this copy of the by-laws here.

Mr. BEALL. At the time that this committee on revision acted, in 1906, what had been the difference between middling cotton and low middling up to that time?

Mr. NEVILLE. Mr. Beall, I could not answer that question right off the bat, so to speak.

Mr. BEALL. What, ordinarily, is the difference?

Mr. NEVILLE. It runs from 50 to 60 points off.

Mr. BEALL. I may not have the grade right in my mind, but my recollection is that at that time there was a difference of 38 points.

Mr. NEVILLE. On low middling?

Mr. BEALL. Is that so?

Mr. NEVILLE. It may be so. I do not know. I was in the South when the revision took place, so that I am not very well posted.

Mr. BEALL. Between what grades did that difference of 38 points apply?

Mr. NEVILLE. I could not answer unless I had the figures before me, and, as I said before, I am a very poor hand to carry figures in my head.

Mr. BEALL (reading):

First grade considered low middling. Mr. Brennecke moved that that grade be made 50 points off instead of 38 points off, as now existing.

That was 1906. At that time, up to the 1st of November, there was a difference of 38 points?

Mr. NEVILLE. Yes.

Mr. BEALL. Through the action of that revision committee it was increased to 50 points; increased 12 points?

Mr. NEVILLE. Yes.

Mr. BEALL. At that very time was not the commercial difference between those two grades of cotton something like 75 or 80 points?

Mr. NEVILLE. To begin with, Mr. Beall, there is a question comes in right there; I would like to see what kind of low middling cotton that was. You say there was that much difference. I would like to see the low middling cotton and see how it would go under a New York contract.

Mr. BEALL. He says here the first grade considered was low middling. You understand what that means?

Mr. NEVILLE. Yes, but in the first place, low middling cotton in New York is not low middling wherever that happens to be.

Mr. BEALL. He was talking about where the difference was to apply. Was that to be in New York?

Mr. NEVILLE. Yes.

Mr. BEALL. We are talking about New York.

Mr. NEVILLE. Now, the difference between low middling there and low middling somewhere else was what?

Mr. BEALL. I do not know.

Mr. NEVILLE. I thought you stated it.

Mr. BEALL. My idea is that the commercial difference between these two grades of cotton was something like 75 or 80 points.

Mr. NEVILLE. That is what made me make my remark to you. I thought you said something of that kind. I said that while low middling in name is the same, low middling in cotton is not the same.

Mr. BEALL. How would that affect the action of your revision committee?

Mr. NEVILLE. We have a standard of low middling cotton on the New York Cotton Exchange, and it is the only exchange that has maintained a standard in this country, and we have had it for years. Low middling in Galveston and in Houston will not go low middling in New York.

Mr. BEALL. We will take the low middling cotton as you understand it in New York.

Mr. NEVILLE. Yes.

Mr. BEALL. You fixed that difference at 50 points off?

Mr. NEVILLE. Yes.

Mr. BEALL. That was on the 21st of November?

Mr. NEVILLE. Yes.

Mr. BEALL. What was the commercial difference between those two grades of cotton in New York?

Mr. NEVILLE. Fifty points.

Mr. BEALL. Within thirty days after that time?

Mr. NEVILLE. Fifty points.

Mr. BEALL. It stood at 50 points?

Mr. NEVILLE. Yes.

Mr. BEALL. It never did vary?

Mr. NEVILLE. No, sir.

Mr. BEALL. But the relative values of those two grades of cotton throughout the country at large did vary?

Mr. NEVILLE. Well, it depends altogether on what construction you place on "relative value." If you take a panic value and call that a relative value, yes.

Mr. BEALL. Was that a panic value?

Mr. NEVILLE. Sure.

Mr. BEALL. Throughout the balance of the world?

Mr. NEVILLE. Sure; just as there was in 1907.

Mr. BEALL. Then there was a panic value throughout the balance of the world, but no panic value in New York?

Mr. NEVILLE. I explained that in my opening statement, giving you what I thought were the three reasons that affected the low-grade crop that year.

Mr. BEALL. There are some suggestions in this report that I would be glad for you to give your opinion upon, as to how it happened that this revision committee fixed these arbitrary conditions on the 21st of November. The statement is made that it has been frequently charged that the members of that committee had a personal interest in the matter. Do you think that there is any justice in that charge?

Mr. NEVILLE. No, I do not think there is any justification for that charge.

Mr. BEALL. You will agree that they were in position to profit by any error that was made?

Mr. NEVILLE. No, I will not assent to that. Not knowing their minds and their position I could not subscribe to that.

Mr. BEALL. You do not know, then, whether they actually did make a profit.

Mr. NEVILLE. No, sir.

Mr. BEALL. Well, the statement is made in this report, first, that they were in position, by reason of their attitude toward the market, to make this profit, and that as a result of fixing the grades upon the basis they did, many of them make an enormous profit.

Mr. NEVILLE. I have no means of testifying on that question.

Mr. BEALL. Do you not think it is rather a bad situation when 17 men are called upon, even with the limitations that are imposed by your rules, to fix these differences in value, when many of them may be in position to profit by an improper fixing of value, and when as a result of a mistake many of them may make an enormous profit?

Mr. NEVILLE. Mr. Chairman, I can only answer that question in this way, that men are called at times to serve on committees when the ones to serve, and who know most about it, can not help but have an interest in what they are called to consider; and under those circumstances an honest man does the best he can, tries to put aside his personal interest, and it is up to that man to put aside his personal interest. Personally, I do not agree with any of the systems in vogue to-day in any exchange, whether it is an exchange that trades in cotton contracts, or whether it is an exchange that trades in spots and to a certain extent in future contracts in spot cotton. I believe the more equitable way is to establish a spinning value based on the grades as near as it can be, and when it can not be done absolutely, yet even to the extent to which it can be done it is more accurate and it is more fair to the producer, than the method which Mr. Beall has been describing as existing in the South and all over the country in the season of 1906.

The CHAIRMAN. Let me ask you right there, would you think it practicable to establish such a spinning value that should be permanent, lasting from year to year, or would you have a spinning value established for each crop?

Mr. NEVILLE. Mr. Chairman, several very well informed manufacturers have given us their inside figures, the result of years of tests, and they tell us that for commercial purposes the quality of the crop, except in a disastrous year where you have a drought followed by a rain that makes a staple what is known as perished—after the cotton matures you know it is light, and then if you have a rain, that causes it to waste—they say with those exceptions those qualities can be arrived at, and one year would be a criterion for another; but the point I am making is, and I hope, Mr. Beall, I will be able to make myself clear here, with middling cotton at 8 cents a pound and low middling cotton worth to a spinner 6 per cent less, that would make low middling cotton worth 48 points off, less than half a cent; but under the commercial system, gentlemen, that cotton could be valued according to supply and demand at the time, at 1⅜ cents off, which was the maximum off middling for low middling in the season of 1906–7. Now, what happens? On every bale of low middling cotton that the farmer has for sale he has to take nearly $5 a bale less than the cotton is worth to a spinner. You may say that the law of supply and demand should govern that. To a certain extent I acknowledge that argument. But, gentlemen, if it is taken at the commercial value based on supply and demand, just so sure as the sun shines to-day and you are sitting here, before that next crop begins to move, the man that bought that cotton gets $5 a bale, and the farmer, because under the necessities of the situation he is compelled to sell or gets scared because there is so much of it and does not use his discretion, loses; and were it not for the New York contract, in 1906–7 there is no telling where low grade cotton would have gone to in the commercial differences.

Mr. BEALL. At the time you fixed that difference at 50 points off, the commercial difference at New Orleans was 113 off?

Mr. NEVILLE. That is 1⅛.

Mr. BEALL. 1⅛?

Mr. NEVILLE. Yes. You are reading from what I suppose to be accurate statistics. I never can carry statistics in my head.

Mr. BEALL. At the time of the revision made by the New York Cotton Exchange in November, 1906, in New Orleans, the most important spot market, the low middling difference was 1.13 off?

Mr. NEVILLE. Yes.

Mr. BEALL (reading):

Instead of basing its revision on the rates in the great markets of the country and the average of 113 points for the —— with the markets above mentioned would be a much fairer basis.

Mr. NEVILLE. Right there I want to take issue with Mr. Herbert Knox Smith's suggestion as to the method of arriving at differences to be fixed in the New York Cotton Exchange. Gentlemen, the basis of classification is middling, yet there are as many varieties of middling cotton, white, in the United States, I was going to say as there are different grades of cotton. Middling cotton in New York is not middling in Savannah, or middling cotton in Charleston or middling cotton in Augusta or middling cotton in New Orleans, nor is it middling anywhere else; nor is middling in those markets middling anywhere else; and how is it physically possible to take the quoted differences in name only and make an average to suit the market, where they have the same names but not the same grades for the same names?

Mr. BEALL. This difference of 50 points which you did fix was made to apply to all low middling cotton?

Mr. NEVILLE. It was made to apply to low middling cotton that was delivered on contract in New York.

Mr. BEALL. As a matter of fact, did it not exert an influence upon low middling cotton everywhere else as well as in New York?

Mr. NEVILLE. No, sir; I can not see it that way.

Mr. BEALL. Does the price of low middling cotton in New York have no influence upon the price of low middling cotton anywhere else than in New York?

Mr. NEVILLE. It did not seem to in that year. It seemed to come to New York to deliver on contract. It did not go anywhere else to deliver on contract.

Mr. BEALL. It came to New York for delivery on contract for the reason that you estimated a difference of only 50 points off?

Mr. NEVILLE. Yes.

Mr. BEALL. While throughout the balance of the world, or throughout the balance of the United States, perhaps I should say, there was an actual difference far in excess of that?

Mr. NEVILLE. Mr. Beall——

Mr. BEALL. Was not that the reason that it came to New York?

Mr. NEVILLE. No, sir.

Mr. BEALL. Why did it come there?

Mr. NEVILLE. It came to New York because the producers were able to get more money for it in New York than they could get anywhere else.

Mr. BEALL. Were they not able to get more money for it in New York because you did not properly fix the differences?

Mr. NEVILLE. No, sir; I will not subscribe to that. There was a demand for cotton at that price in New York which enabled them to deliver those low grades at that price.

Mr. BEALL. If you had fixed a difference of 1 cent, would as much cotton have come to New York as did come?

Mr. NEVILLE. I dare say it would.

Mr. BEALL. If you had fixed the difference at what the actual difference was throughout the country at that time, would that have had a tendency to bring as much cotton to New York as did come?

Mr. NEVILLE. I expect it would, because then the basis price of your contract would have been a little higher than it was.

Mr. BEALL. What was the highest difference between middling and low middling throughout the country during that season?

Mr. NEVILLE. I could not answer without looking at the records.

Mr. BEALL. About what?

Mr. NEVILLE. I should think about 1⅜ cents.

Mr. BEALL. If you had fixed then the difference at 1⅜ cents, would there still as much cotton have come to New York as did come?

Mr. NEVILLE. Yes, sir; I believe it would.

Mr. BEALL. If you, instead of making the mistake of not establishing a sufficient difference between the two grades, had gone to the other extreme and had established a difference greater than the difference throughout the country, would there still have come to New York as much cotton, in your judgment?

Mr. NEVILLE. That is a very hard question to answer, because there are too many "ifs" in there. I can not answer that kind of questions.

Mr. BEALL. You had to take into consideration a good many "ifs" when you fixed the differences, did you not?

Mr. NEVILLE. No, sir; we did not.

Mr. BEALL. Should not your committee have taken into consideration a good many "ifs" when you fixed the differences?

Mr. NEVILLE. That is a debatable question. I should say that they did not have to.

Mr. BEALL. You admit that there was a mistake made in fixing the differences?

Mr. NEVILLE. I think so.

Mr. BEALL. Your judgment is that by reason of that mistake no more cotton was sent to New York than would have come if there had been no mistake?

Mr. NEVILLE. No; I think the New York market was the only market that took the low-grade cotton at anything like the value.

Mr. LEVER. You have answered that this movement of low-grade cotton in 1906 was not due to the fixed difference system? Was there any reason for this large demand for low-grade cotton in New York at that time?

Mr. NEVILLE. There was a demand for basis contracts there.

Mr. LEVER. No; but I mean for this low-grade cotton?

Mr. NEVILLE. The New York market was the only market for it.

Mr. LEVER. What special reason was there for this demand?

Mr. NEVILLE. It was a merchant's proposition. They were willing to buy it.

Mr. LEVER. They were willing to buy it?

Mr. NEVILLE. Yes.

Mr. LEVER. They were willing to sell it?

Mr. NEVILLE. Yes; they sold it afterwards. You may be wearing a shirt made from some of that cotton, for all I know. I sold some of it to a mill that makes stuff for shirts.

Mr. LEVER. I was only asking to know if you fixed differences for the low grade in New York, and there was no demand for this low-grade cotton throughout the country, why there should be a special demand for it in New York.

Mr. NEVILLE. Strictly because there was a merchant's demand for it; they were willing to take it.

Mr. LEVER. In other words, I was trying to bring out this point: Why was it that the merchants of New York wanted a special grade of cotton that no one else in all the country wanted?

Mr. NEVILLE. They had a little better foresight than the other merchants.

Mr. MANDLEBAUM. May I ask one question, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. MANDLEBAUM. You have stated that in some of the markets the differences quoted as between low middling and middling were as much as 1⅜ cents. Did that represent the actual selling value of low middling in those markets?

Mr. NEVILLE. I do not think it did.

Mr. MANDLEBAUM. Did you not try to buy low middling in New Orleans at the published differences?

Mr. NEVILLE. I did.

Mr. MANDLEBAUM. And how much could you buy?

Mr. NEVILLE. Not a bale.

Mr. BEALL. Why could you not buy it?

Mr. NEVILLE. They told me they could not buy it. It was not for sale at that price.

Mr. BEALL. Because they could get more for it in New York?

Mr. NEVILLE. I do not know what the reasons were. I know I offered them a cent a pound off low middling, when it was quoted at 1⅜, and they told me they could not get it at that price.

Mr. BEALL. You said that ordinarily the difference between futures and spots on the New York market was 25 to 30 points, I understand.

Mr. NEVILLE. Yes.

Mr. BEALL. During that season of 1906–7, what was the maximum difference between spots and futures on the New York market?

Mr. NEVILLE. As I said before, gentlemen, I am not a very good hand for carrying figures in my mind. You have the report there.

Mr. BEALL. It is somewhere here. I do not know just where to find it now. I do not profess to know very much about the cotton trade, and I may get figures confused.

Mr. NEVILLE. I could not answer as to the exact number of points, but it is in Mr. Smith's report. That is authoritative on that particular point. I am willing to let whatever there is there stand as my answer.

Mr. BEALL. I am under the impression that there was a difference somewhere of 198.

Mr. NEVILLE. I think so.

Mr. BEALL. But I was not sure whether that applied to New York or not.

Mr. NEVILLE. Yes.

Mr. BEALL. If that is a fact, if the normal difference is 25 or 35, and through some influence that difference was increased to 198——

Mr. NEVILLE. Yes.

Mr. BEALL (continuing). What effect did that have upon the future market?

Mr. NEVILLE. I do not know that it had any effect. At that time that you refer to, when middling cotton everywhere was quoted so much higher than futures, as I stated to the gentlemen of the committee a moment ago, there was practically no middling cotton in existence, and the price was quoted in the trade because it was the custom to take middling cotton as a basis to work from.

Mr. BEALL. I will ask you this, if as a matter of fact the farmer in Texas is not very largely governed by the price that is given to him as the price of futures in New York, in determining in his own mind what he thinks his cotton should be worth in Texas?

Mr. NEVILLE. I should not think so.

Mr. BEALL. Is not that about the only market that the farmer has access to?

Mr. NEVILLE. I should not think so. I should not think that was the only thing that governs him.

Mr. BEALL. In the exchanges that used to operate in the South, the markets that they posted on the board were the future markets, were they not?

Mr. NEVILLE. Yes; all future markets, if you will recollect.

Mr. BEALL. Of course the cotton buyer keeps up with the market, but as a matter of fact is not the farmer in the South very largely dependent, in estimating for himself the value of his cotton, upon the information he gets as to the price of futures?

Mr. NEVILLE. I would say that has some influence on his mind, but I do not think that is altogether the controlling factor, because I have seen farmers carry their cotton back because the price did not suit them.

Mr. BEALL. Yes, that occasionally happens; but very rarely.

Mr. NEVILLE. I think it happens pretty often.

Mr. LEVER. Would you say 10 per cent of the farmers did that?

Mr. NEVILLE. That is an impossible question to answer.

Mr. BEALL. You would not say 1 per cent did that?

Mr. NEVILLE. No, sir; I would not say that one-half of 1 per cent did it.

Mr. BEALL. No; I would not, either.

Mr. COCKS. Will you explain to us the objection that has been raised here by the cotton planter that he could not get a price on his cotton when he came to town, until they had heard from New York?

Mr. NEVILLE. Mr. Cocks, my experience is not that way. I have bought cotton from farmers from North Carolina down to Texas, and I have never seen a time when the farmer came into market with a bale of cotton for sale that he could not get a price from some buyer, if it was 7 o'clock at night. I take exception to that statement, and I wanted to cross-examine the gentleman on it, but I would not do it.

Mr. COCKS. It seemed to me an improbable proposition, because in the matter of cattle, or hogs, or wheat, or matters of that sort, we could always get a price. It looked to me, the way they put the question, as if they were awfully anxious to see if cotton had not gone up before they sold.

Mr. NEVILLE. I expect, Mr. Cocks, you have solved that problem.

Mr. COCKS. I just seemed to gather that impression.

Mr. NEVILLE. I expect my reply to Mr. Cocks's question ought to have a little more explanation, and I will try to explain it. Everyone south of Atlanta, every man connected with the cotton business, knows at 8 o'clock, their time, what the Liverpool market is; so that if the farmer wants to sell at 8 o'clock, the man will make him a price. Farmers do not come in and want to sell 50 bales to 1,000 bales, you know. When they come in that way, they may have 1 bale or 20 bales to sell. Ordinarily it is from 1 to 5 bales.

Mr. BEALL. When the farmer gets that price, if the price of futures——

Mr. NEVILLE. Let me get through, Mr. Beall.

Mr. BEALL. All right.

Mr. NEVILLE. And then you can come in. That buyer knows at 8 o'clock what the market is in Liveropol. If he comes in after hours, after 2 o'clock, when the American exchanges are closed, there is not a buyer anywhere in the South, as it is to-day, who has not the order in hand that he can buy that cotton.

Mr. LEVER. Is it not often a fact that you cover up your transactions in New York through Liverpool, and is it not a fact that Liverpool is controlled absolutely by the New York Cotton Exchange?

Mr. NEVILLE. Liverpool is absolutely controlled by the spinners of England, and nowhere else.

Mr. LEVER. You do not operate on the Liverpool Exchange very largely?

Mr. NEVILLE. Yes, I would say sometimes we operate very largely; and sometimes, again, we do not.

Mr. LEVER. And it frequently happens that you hammer prices in Liverpool——

Mr. NEVILLE. We never hammer prices; sir. That is a common expression that is just as——

Mr. LEVER. That is just a newspaper expression, hammering prices?

Mr. NEVILLE. Yes; that is it.

Mr. LEVER. Is it not a fact, however, that the great bulk of the cotton crop of the South coming from the hands of farmers into the hands of cotton buyers is controlled in its price by the future quotations from the New York Cotton Exchange?

Mr. NEVILLE. No, sir; absolutely, no.

Mr. LEVER. You would not admit that?

Mr. NEVILLE. No, sir.

Mr. LEVER. Would you admit that the future quotations have any effect whatever upon the price?

Mr. NEVILLE. I think the two are closely related, and perhaps I can best illustrate that, Mr. Chairman, by stating that it might suit my business, with the orders I have got on my books, to offer 10 cents in Columbia, S. C., for strict middling cotton. That was the price I bought at yesterday. The man I telegraphed to, offering 10 cents, said: "Notwithstanding future markets unchanged, I can not buy at less than 10⅛, and there is a demand at this price." That happens often.

Mr. LEVER. If you were to telegraph a local cotton buyer down there by the name of J. D. Frost to buy you 10,000 bales of cotton——

Mr. NEVILLE. I do not telegraph for large quantities like that. Put it down in reason.

Mr. LEVER. That would not seem to affect the difference in the parity between spots and futures.

Mr. NEVILLE. Sure.

Mr. LEVER. This is a pretty mystic maze of a subject to me, and I confess I do not see how.

Mr. NEVILLE. With all due apologies, Mr. Lever, it is a pretty mystic subject to all of us, sometimes. No two seasons are alike. We think we know a thing one year, and we do not know it the next.

Mr. HOWELL. You stated as an extensive dealer that there were certain practices on the New York Cotton Exchange and other exchanges of which you did not approve.

Mr. NEVILLE. I beg your pardon?

Mr. HOWELL. I say as an extensive dealer in actual cotton you stated that there were practices, methods and practices——

Mr. NEVILLE. Methods, I should say.

Mr. HOWELL. Methods of practice on the New York Cotton Exchange and other exchanges which you did not approve of.

Mr. NEVILLE. I referred to this question of fixing the difference between the grades. That was the subject under discussion at the time.

Mr. HOWELL. Would you care to give the committee your idea as to doing that?

Mr. NEVILLE. My idea was to fix the basis on the spinning value, above and below middling as compared to middling. There would be times when in the marketing of the crop those differences might seem out of gear; but as the crop progressed, and the demand came on the grades that at one time were neglected, the differences would go back very quickly and become normal. That has been our experience through a number of years.

Mr. HOWELL. Is not that the method involved now in the New York Cotton Exchange?

Mr. NEVILLE. Partially so; but not on the figures, as we are trying to have ascertained by actual mill tests of actual cotton of the various grades that we are interested in.

The CHAIRMAN. In that connection, you were one of the committee that assisted the experts in the Department of Agriculture in making up the samples of the grades of cotton?

Mr. NEVILLE. Yes.

The CHAIRMAN. Provided for by recent legislation?

Mr. NEVILLE. Yes.

The CHAIRMAN. Is it your judgment that these grades will be generally accepted by the cotton trade?

Mr. NEVILLE. Mr. Chairman, I have never seen a piece of legislation offered before any body that appealed to the members of the New York Cotton Exchange more than that, as individuals and collectively, and I will tell you why. In the early seventies there was a convention of all the cotton interests in the world, held at Old Point Comfort, where standards of classification for American cotton were agreed on. They were made up and they were carried to England and they were carried in the various markets in the South. That convention sought to have a uniform system of classification so that when a merchant, a spinner or a farmer, saw that middling cotton was quoted in Augusta at 11 cents, and middling cotton was quoted in Meridian, Miss., at 11 cents—and I quote those two points because the middling

Mr. MANDLEBAUM. Spot cotton in the South did not sell at the price it was quoted. It was quoted that way, but no sales were made. It could not be sold at that price, and that is the reason that the future price in New York broke. Cotton for two weeks was quoted on the New Orleans Cotton Exchange at 15 cents, nominally, with no sales. Contracts sold at 13½ cents.

Mr. LEVER. Then I understand you to say that because the farmers refused to sell their cotton for 15½ cents a pound, and there was no supply of it, therefore futures dropped 200 points?

Mr. MANDLEBAUM. I beg your pardon; you certainly misunderstood me. At the high price, at the time when future contracts reached this high price, so much actual spot cotton was offered that the market of the world could not take care of it at that moment.

Mr. LEVER. I understood you to say a moment ago that no cotton was offered, and therefore it broke.

Mr. MANDLEBAUM. I did not say it was not offered; I said it could not be sold at the figure at which it was quoted in the southern market.

Mr. LEVER. Very well.

Mr. MANDLEBAUM. I did not say it was not offered. I said it could not be sold. The quotations were entirely and absolutely nominal.

Mr. BROOKS. Mr. Chairman, I rise to the point of order that this is contrary to the rules that you have adopted for these hearings, and I do not think they ought to butt in in this way.

Mr. MANDLEBAUM. I simply answered the question as Mr. Lever put it.

Mr. NEVILLE. I think you both ought to be punished.

The CHAIRMAN. It all goes in the record.

Mr. HAUGEN. As a general thing the prices upon contracts for future delivery are higher or lower than for spot delivery?

Mr. NEVILLE. It depends altogether on the location of the spot cotton.

Mr. HAUGEN. I say, as a general thing?

Mr. NEVILLE. As a general thing, in normal times, the future price of cotton reflects the price of spot cotton at some place, plus the freight.

Mr. HAUGEN. Are the prices for future delivery higher or lower than for spot delivery, as a general thing?

Mr. NEVILLE. As a general thing they are higher?

Mr. HAUGEN. They are less?

Mr. NEVILLE. They are higher than spots.

Mr. SIMS. In selling futures or buying futures on what you call the new crop——

Mr. NEVILLE. Yes.

Mr. SIMS (continuing). In other words, where the contract can not be executed until the cotton that is not now planted has been planted, grown, ginned, and delivered, any future now sold can not therefore possibly be based upon the spot value of cotton not yet planted or grown? Is that possible?

Mr. NEVILLE. Any cotton sold?

Mr. SIMS. In other words, when you are selling what they call in the papers new crop cotton; in other words, you are selling now for December delivery, and you are undertaking, as I understand, to deliver cotton grown in the year 1910?

Mr. NEVILLE. Yes.

Mr. SIMS. Now, there being no spot cotton yet in existence grown in 1910——

Mr. NEVILLE. Yes.

Mr. SIMS (continuing). The price you are willing to make on that new cotton which is not yet planted does not depend upon the existing spot price of that which does not yet exist?

Mr. NEVILLE. That depends, Mr. Sims, on the price at which I can buy contracts to protect my sales to the spinner. I will give you an illustration.

Mr. SIMS. I do not think you want to evade my question——

Mr. NEVILLE. I am not evading it.

Mr. SIMS. But you are——

Mr. NEVILLE. The cotton is not created, and consequently it does not exist; that is your question.

Mr. SIMS. And therefore it can not control the price?

Mr. NEVILLE. It does not control the price, but what does control the price is this: In March, 1907, one of my friends from Mr. Lever's State was in New York and he rang me up and said he wanted to come to see me if I would be in my office when he got down there. He came in and said, "I have just had a proposition put up to me that requires the purchase of 25,000 bales of spot cotton. It is export business to China. It will keep my mill busy an entire year, and I want to know what you will sell me that cotton for."

Mr. SIMS. The contract for delivery?

Mr. NEVILLE. Yes; what I would sell him the quality of cotton to make those goods for. I told him what I would sell it to him for, but I said, "You can not afford to pay me that price. I have got to take all the risks of the crop, and of the vicissitudes of the weather after the crop is planted, and I am charging you for it." He said, "What am I going to do?" I said, "Buy 25,000 bales of October contracts." He said, "Well, go ahead and do it." I said, "Then as your cotton is marketed in your district, as you buy your cotton you sell out your contracts." I bought them for him. Now, that cotton was not grown.

Mr. SIMS. It had not been planted?

Mr. NEVILLE. It had not been planted; but somebody sold that cotton.

Mr. SIMS. Now, the man that——

Mr. NEVILLE. Wait a minute; I will answer your question if you do not interrupt me, or I will try to answer it; and I want to do it so that you will not come back at me with another question on the same subject.

Mr. SIMS. All right; I will be glad to have you do that.

Mr. NEVILLE. Somebody sold those contracts that I bought for that gentleman's account. The man that sold those contracts might have been a speculator, who sold thinking that there would be a large enough acreage to permit cotton being sold at a price when it was marketed so that he could buy in those hedges, those contracts that he had sold speculatively there, at a profit; or they may have been sold by some large planter or some guano concern attracted by the price. The gentlemen in this room who live in Georgia and South Carolina know that this season, beginning in March, a year ago this coming March, planters sold cotton from 9½ cents up to 13 cents

for October and November delivery, hundreds of thousands of bales. They may have made some similar sales on future contract markets. That, Mr. Sims, is an effort on the part of the man who raises cotton, or who has cotton due him by a farmer, to protect himself against any fluctuation, and he is satisfied with that price.

Mr. SIMS. Now, is that what you call an answer to my question?

Mr. NEVILLE. That is an answer; yes, sir.

Mr. SIMS. Now, I am bound to ask you another one.

Mr. NEVILLE. Please let me finish my answer first.

Mr. SIMS. I will, if you do not stop talking and look like you are thinking.

Mr. NEVILLE. Well, this is new business to me.

Mr. SIMS. What, thinking?

Mr. NEVILLE. No, this talking business. I am only used to talking to the typewriter.

Mr. SIMS. You talk mighty well for a new man.

Mr. NEVILLE. That mill man got his cotton, contracted for his cotton in October, and he sold his goods in China, and kept his mills going a year, beginning the first of September following, and as he bought his cotton and liquidated the futures I sent him a check for over $250,000 on the liquidated contracts.

Mr. SIMS. Now, you have made it necessary for me to ask you another question.

Mr. NEVILLE. All right.

Mr. SIMS. The statement, in substance, as I have gotten it from you gentlemen here, is that the price of cotton is not determined or made by the price of futures, but the futures follow the cotton. In determining what the price of cotton would be in October, I will ask you if the man who sold those 25,000 bales of cotton as futures, let him be a speculator or whatever he was—he was a speculator, whatever his business was—had a single fact then existing, that is as to the existence of cotton, the existence of acreage, the existence of weather, upon which he could commercially base a price, and if it was not all a guess; if he did not put his money up essentially because he thought he could guess or was guessing in a general direction that would turn out true, and he would make money by it; in other words, so far as he was concerned was it not absolutely artificial, having no basis in fact, and based upon no existing conditions at the time the contract was entered into?

Mr. COCKS. Oh, I object to such long questions. It is impossible for us to get at the meaning of them.

Mr. SIMS. I got a very long answer to a short question, and I thought maybe by asking a long question I could get a very short answer.

Mr. NEVILLE. In reply to Mr. Sims's question, I would like to submit an extract from the report of the Industrial Commission, section 10, pages 28 and 29, volume 6, it being the report of the Industrial Commission of 1900 made by Senator Kyle of South Dakota, who was chairman of that commission. The report of that commission answers Mr. Sims's question. I will submit it.

The CHAIRMAN. Without objection, it will be inserted in the record.

EXTRACTS FROM THE REPORT OF THE INDUSTRIAL COMMISSION APPOINTED BY THE GOVERNMENT IN 1898, TO INVESTIGATE THE EFFECTS OF SPECULATION ON THE VALUE OF FARM PRODUCTS.

[SEC. X. Pages 28 and 29, Vol. No. 6 of the Industrial Commission's report of 1900, Senator Kyle, of South Dakota, Chairman of Commission.]

Why has commercial distribution in the United States become so largely identified with the speculative class of trading capitalists? The answer is, that it has been found best for the producing and consuming interests of the community that the risks of distribution should be localized in a separate commercial class whose members are in a position to inform themselves as to all the factors—past, present, and prospective—affecting the future course of prices. If the risks of distribution fell upon the farmer, it would increase materially the risks of capital required and thus raise the rate of interest he should have to pay as producer, because increased risks always raise the rate of interest. This would increase the cost of production and would consequently tend to reduce consumption by rise of price to consumers. Such rise of price beyond a certain point would reduce the volume of trade. If consumers assumed the risk of distribution there would be very inadequate provision for the future. Irregular supply of subsistence soon breaks down the economic efficiency of consumers, besides impairing their regular consuming capacity as customers of the producer. Hence the community, producers, traders, and consumers, all suffer together.

These two kinds of services are peculiar to speculative distribution—the service of assuming the risks that arise from charges in the relation of demand and supply, and the service of giving the right direction the commodities available for consumption. Even in famine stricken India, the government regards speculative distribution of supplies as on the whole far more efficient than any bureaucratic distribution could be. Without this, modern markets would be deprived of a very great share of their efficiency in serving producers and consumers. In fact, those who have thought out the subject most thoroughly have found in this directive work of speculation the chief justification for its existence. Where Government has assumed even part of the risk of crop distribution, as in Russia, piles of wheat rot in one section, while people starve in the next.

(There are no grain speculative markets in Russia.)

Professor Emery gives it as his opinion that organized speculation is found to be the means of making the needed protection, and it will also prove itself the chief directive influence in the economic field in which it prevails.

Speculative dealings in farm products have then three things to consider: Concentration and distribution of surplus crops at right times and places, and the formation of a business judgment based on a ratio of the visible supply to the world's grain and cotton, for example, to the customary demand of its consuming communities. The scope of this task of forming a judgment upon world-wide conditions, and forming it accurately enough to stake millions of capital upon it, is perhaps the heaviest hazard on our whole modern economic organization of society. But some class of investors must do it, or the consumers must pay a higher price for their produce, and producers must be content to enter the market with fewer competitors, ready to buy and carry their surplus. Producers and consumers together, without the speculative mechanism at work, would have to divide the risks of distribution between them. Neither of these interests is prepared to do this. Sound commercial policy is the best served by a rational division of distributive labor, in which economic freedom and economic responsibility are equally respected. The economic services of speculative agencies engaged in distributing farm products are threefold:

1. They localize industrial risks among a commercial class whose special function is to distribute surplus supplies over deficit times and places in such a way as to lessen the uncertainty of producers and consumers.

2. They relieve producers and consumers from carrying a whole year's stock, enabling the farmer to convert his crop promptly into cash capital, and the latter to supply himself as his periodical needs may require without enhancing prices beyond the original rate of risks and returns of such capital investments.

3. Competition of speculative traders tends more than any other force to reduce profits of these agencies to a minimum per unit of commodity handled. Released from their economic functions, it is to their interests to seek to reduce the risks of distribution to a minimum. By expert acquaintance with the conditions that involve risks the hazardous elements are gradually limited, if not entirely eliminated.

Mr. COCKS. Now I would like to ask Mr. Neville a question. The cotton planter assumes here by his representatives that he takes all the risks?

Mr. NEVILLE. Yes.

Mr. COCKS. And yet you tell me that a lot of cotton planters sell their crop ahead.

Mr. NEVILLE. Yes.

Mr. COCKS. In that case do they not distribute the risk over the rest of the world?

Mr. NEVILLE, Yes.

Mr. COCKS. I would like to ask Mr. Sims or Mr. Burleson if he thinks that is a proper thing for the planter to do, to sell his crop before it is planted?

Mr. BURLESON. No; and it is done to an insignificant degree.

Mr. COCKS. In that way could not the planter protect himself by hedges?

Mr. BURLESON. No, sir; every one that has ever tried it has been burnt.

Mr. COCKS. He is gambling like any other gambler, is he not?

Mr. NEVILLE. Mr. Chairman, if those gentlemen want to get on the stand so that we can cross-examine them, let them get on. They are making statements as to gambling and speculating that I think are capable of two or three constructions, and on that point——

Mr. SIMS. I think a farmer can gamble as well as anybody else, if he wants to.

Mr. NEVILLE. It is not a question of that; it is a question of whether a farmer when he sells his crop ahead, instead of selling 300 bales sells 1,000 bales at a price that is satisfactory to him, is gambling. I think that is a distinction that is pretty fine.

Mr. LEVER. I want to ask just one other question, and then I am through.

Mr. NEVILLE. Mr. Lever, you remind me of the man that only wants to talk a minute.

Mr. LEVER. I will make it very short. A moment ago in testifying on the question of hedging you said that the man who bought 100 bales of actual cotton and sold on the exchange a hedge, would not thereby necessarily become a bear on the market for futures.

Mr. NEVILLE. I said so.

Mr. LEVER. Now, as to the mill man, I take it from the testimony given in the hearings that the condition would be a little bit different. He buys 1,000 bales of spot cotton and sells a contract for 1,000 bales as a hedge against that?

Mr. NEVILLE. Yes.

Mr. LEVER. What would his position be?

Mr. NEVILLE. I think his position is just as I am. If the market for cotton goes down, the contracts go down. He is protected in a possible decline in his case owing to the decline of the contracts.

Mr. LEVER. As a matter of fact——

Mr. NEVILLE. One minute; let me get through. If the cotton market goes up, that money he loses on his hedge is made up on the advanced price he gets for his goods.

Mr. LEVER. So that as a matter of fact—and this is the point I want to bring out—the mill man who sells a hedge becomes really a bull upon the future market in order to get the advance in his commodity?

Mr. NEVILLE. No; I would not say that, and I do not think my answer could possibly be construed that way.

Mr. LEVER. Then he would not become a bull?

Mr. NEVILLE. I think his position on the market is absolutely neutral.

Mr. LEVER. He does not care whether it goes up or down?

Mr. NEVILLE. He is in just the same position as the merchant is in. We do not care whether we pay 15 cents or 20 cents or 8 cents or 9 cents a pound for cotton. It is immaterial to us.

Mr. LEVER. So that you do not agree with Mr. Parker, who testified that the spinner who sold a hedge naturally had a depressing effect upon futures for the reason that he was afraid to accept delivery of the cotton you have in your stock?

Mr. NEVILLE. No, I do not agree to that.

Mr. LEVER. You do not agree to that?

Mr. NEVILLE. Absolutely, no.

Mr. ELLERBE. I understood Mr. Neville, I think, to say that the farmer selling his cotton was practically the same thing as if he sold so many bales of futures. I want to ask him if this is not a fact that in a great many localities—it is so in mine—the farmer comes to his local merchant or to his local cotton buyer and sells 100, 200, sometimes 1,000 bales of cotton. The contract is drawn. If those men are responsible, it matters not how much fluctuation there may be in cotton, when the fall of the year comes and that cotton is delivered the price is paid as agreed upon; but suppose that poor farmer sells 1,000 bales of cotton as futures, and in the spring of the year, when every dollar he has is tied up, there comes some rumor, false, probably, which perhaps lasts but a day, and cotton shoots up 2 or 3 cents a pound and then drops back, is not that man out of the market and all of his money gone? I just ask that question to get that difference clearly before the committee.

Mr. NEVILLE. That condition might follow; but then the farmer is to blame for contracting to sell more cotton ahead than he is financially able to take care of.

Mr. BURLESON. That is your answer to that question?

Mr. NEVILLE. Yes.

Mr. BURLESON. I could not understand your reply, Mr. Neville, to a question put by Mr. Beall as to whether any members of the revision committee of 1907 made money.

Mr. NEVILLE. I said that I had no means of knowing.

Mr. BURLESON. You had no means of knowing?

Mr. NEVILLE. No, sir.

Mr. BURLESON. You did not either affirm or deny that they had?

Mr. NEVILLE. I said that I had no means of knowing, Mr. Burleson.

Mr. BURLESON. Do I understand that from your viewpoint it is right for a man who is on this revision committee to be interested largely in future contracts?

Mr. NEVILLE. Mr. Burleson, I stated, and I think my reply, if the stenographer could find it, was this: That in a matter of that kind that necessitated a man knowing something about what he was called on to do—for instance, a member of the exchange who was actively engaged in the cotton business and very rarely came on the floor of the exchange and did not keep posted on the cotton part of it—could not serve on that committee.

The CHAIRMAN. Let me interrupt the examination to say that it is about time to adjourn.

Mr. BURLESON. I can finish in three minutes, Mr. Chairman.

The CHAIRMAN. We will give you five minutes more.

Mr. BURLESON. To get right down to it, I understood you to say that you did not believe any of these members were interested in future contracts?

Mr. NEVILLE. I said that I did not believe any man who was on that committee would allow his interests that he might have in the market to influence his decision in fixing those differences. That is what I said, and I think I was perfectly clear on it.

Mr. BURLESON. I wanted to read you this from the report of the Commissioner of Corporations:

> One member of the committee who admitted that he was short of the New York market and long of Liverpool, and who made a great deal of money, said:
>
> "I do not think the differences should be fixed once a year or twice a year, or any other number of times a year. We have here a contract which calls for the delivery of cotton between one man and another. I am very emphatic in believing that there ought to be no committee or parcel of men who have the power to alter the terms of this contract. You get together an aggregation of 17 men here. There is no telling what an ordinary jury is going to do in judging facts. But here you get together a parcel of 17 intelligent men. Every one of them must be interested more or less in the fixing of differences. If they were not interested, they would not be in the cotton trade. Now, you are asking them to do something they can not do—eliminate self-interest in acting upon a question where they are vitally interested. * * * Here you have got 17 men to do something with no basis on which to do it; they do not know what they are expected to do it on, except that they are to fix differences binding between buyer and seller for ten months, and that, too, when the contracts have already been entered into and anything they do must take so much money out of one man's pocket and put it into another man's pocket. * * * If a man was not interested in the cotton business, he would not be a fit person to sit on that committee and make differences, and at the same time if he is interested in the cotton business he is not a fit person to sit there and fix differences affecting a contract between himself and somebody else. * * * It simply amounts to the same thing as a judge sitting on the bench and passing on his own case."

That came from one of the members who made up the differences.

Mr. NEVILLE. That is all right. I can understand that.

Mr. BURLESON. In 1906.

Mr. NEVILLE. His idea and mine are in thorough accord, and I think I answered that in response to a question of Mr. Beall. That is exactly what some of us are trying to do now, to take it out of the hands of anybody by fixing the difference on the spinning value, and not fixed on so-called commercial values.

Mr. BURLESON. Now, I want to ask you if it is not a fact that the safety of a hedge depends upon a parity being maintained between the future price and the spot price?

Mr. NEVILLE. I do not think so.

Mr. BURLESON. You do not think so?

Mr. NEVILLE. Not altogether. It is a very desirable thing, but there are so many things that could disturb the parity.

Mr. BURLESON. If the margin becomes very wide and there is a violent fluctuation, does it not cease to be a hedge altogether, or a protection altogether?

Mr. NEVILLE. Not altogether. It depends on the basis the man has used the hedge for. If you will tell me exactly what you are driving at, I will give you an answer on it.

Mr. BURLESON. What I am driving at is this, whether or not the statement of facts by the Commissioner of Corporations is true, and if it is true whether you are in accord with the conclusions he bases on them?

Mr. NEVILLE. What is the statement of facts?

Mr. BURLESON. This is on page 156:

From September, 1891, to September, 1897, the margin between the two prices showed a fair degree of constancy. Thus, the extreme discount in the contract price during this period was 56 points, and instances where the discount exceeded 40 points were rare. At the same time the margin seldom was less than 15 points. This comparative steadiness of the margin is well brought out by chart 5. This greater uniformity in the margin was due in part, no doubt, to the low prices for cotton which prevailed during this period and for some time thereafter. Thus, from 1892 to 1897 the actual price of middling did not at any time exceed 10 cents, while it frequently was below 6 cents. While the normal margin of 15 to 25 points should be more or less unaffected by changes in prices of spot cotton, disturbances in this margin, due to improper establishment of differences, would naturally be less when prices of cotton were low and the commercial differences consequently small in absolute amount than when they were high, since errors in arbitrary differences under these conditions would naturally be smaller than when prices of cotton were high and commercial differences between grades fairly wide.

During this period, from 1891 to 1897, the revision committee of the New York Cotton Exchange continued to meet nine times a year; as shown later, the committee frequently made no change in differences at its meetings. In the crop year 1897 the New York Cotton Exchange abandoned monthly meetings of the revision committee, and provided that the committee should meet only twice a year, namely, in September and November, and this system has been in force ever since. This change has been followed by a very marked change in the relationship between the spot and the contract price. In the seasons of 1897–98 and 1898–99, it is true, the margin between the two prices was comparatively moderate on the whole, although in the latter season the margin in July widened out to 65 points. In these years, however, as shown later, the disparity between the New York differences and the commercial differences was not great. This again was partly due to the low prices of cotton which still prevailed at this time.

From September, 1899, down to the present time, however, the margin has on the whole been very much greater than in earlier years, and, what is far more important, it has fluctuated with much greater violence.

* * * * * * *

Irregularity in the margin is especially important. It is the constancy rather than the amount of the margin with which operators in the future market, and particularly those using the future market for hedging purposes, are mainly concerned. The consideration can not be too strongly emphasized. That is to say, it is largely immaterial to an operator whether the contract price is 25 points below the price of spot middling or 100 points below so long as a uniform parity is maintained. The table, however, shows very clearly that for the period from 1897 to date, and more particularly from 1899 to date, there has really been nothing like a sustained parity between the two prices for any considerable period of time. This means that merchants using the market for hedging purposes have been more or less constantly subjected to a very serious risk; whereas, as so frequently emphasized, the purpose of hedging is to reduce or eliminate risk. It means, too, that the calculations of speculators as to the movements of the contract price itself have been rendered more difficult and risks consequently increased.

Now, first, is it true that the prices have fluctuated; that this margin has fluctuated with more violence from 1899 down to the present time than it has at any time in the past?

Mr. NEVILLE. What do you mean by "margin?"

Mr. BURLESON. Well, the margin, the difference between the future price and the spot price. That is what I mean by "margin."

Mr. NEVILLE. I could only answer that, Mr. Burleson, in this way. Of course, what Mr. Herbert Knox Smith has got there, he has gone to the exchanges and copied the statistics——

Mr. BURLESON. Then do you accept——

Mr. NEVILLE. Let me get through before you ask me any more questions. What he says may be true. I do not think that is a fair criterion, for the reason that a merchant who tries to keep up

with the causes that affect margins, as you call them—we call them parities—would control his hedging to meet the occasion. I mean by that, this: If a merchant wanted to buy cotton hedged, and he thought conditions that he could foresee would cause that particular kind of cotton the spinner wanted——

Mr. BURLESON. Evidently you do not understand what I have got in mind.

Mr. NEVILLE. Evidently I do not. I must confess that. I am answering the best I can. I am doing the best I can.

Mr. BURLESON. All right. I will put three simple questions that can be answered yes or no.

From 1899 to the present time has the margin between cotton constantly fluctuated with more violence than it did theretofore?

Mr. NEVILLE. I could not say.

Mr. BURLESON. You do not know. If that is true, upon the assumption that that is true——

Mr. NEVILLE. There you go with an "if."

Mr. BURLESON. Well, if that is true; you are here as an expert defending the exchange.

Mr. NEVILLE. I am not defending that part of it.

Mr. BURLESON. If that is true, does it not destroy the exchange for hedging purposes?

Mr. NEVILLE. Absolutely no.

Mr. BURLESON. Now, then, why not?

Mr. NEVILLE. I endeavored to tell you just now, and you said I was not answering the question.

Mr. BURLESON. Now, I will give you an opportunity to tell why.

Mr. NEVILLE. I consider that is an answer that I have given there to that question, and I think the chairman will agree with me.

The CHAIRMAN. The committee will adjourn until 2 o'clock.

(At 12.30 o'clock p. m. the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee met pursuant to taking of recess, Hon. Charles F. Scott in the chair.

The CHAIRMAN. Mr. Neville desires to open his statement this afternoon by calling the attention of the committee to some samples of the grades that have been fixed by the department in order to illustrate what he may have to say about the grades that are in effect in the New York market.

Mr. NEVILLE. So-called quarter grades.

The CHAIRMAN. And the committee will therefore make itself as comfortable as possible wherever it can see the samples.

TESTIMONY OF MR. GEORGE W. NEVILLE—Continued.

Mr. NEVILLE. There have been statements by the proponents of the measure that you are considering, and by the people who have used a number of grades deliverable on contract in the New York market which I, as a member of the New York Cotton Exchange and as a merchant handling large quantities of spot cotton, take very

pronounced exception to. The grades deliverable on New York contract, and the stock of cotton in New York at any season, are both spinnable and merchantable cotton. There may be a few bales which should not have been delivered on contract. A bale or two now and then will creep in which the classer overlooks.

Should this happen in the New York Cotton Exchange stock, the receiver of that certificate containing that faulty bale has redress. The handler of spot cotton in the South who takes delivery of that kind has no redress.

The New York Cotton Exchange, by its certificating system, stands ready to make good the class of any bale which any receiver of that certificate receives against the tender to him of spot cotton against the contract he has bought for future delivery. Notwithstanding the large stock of so-called unspinnable and unmerchantable cotton which the defamers of the New York Cotton Exchange have been so freely saying has existed in the past four years, that cotton has all gone into consumption; and I will defy anyone to produce a spinner who bought that cotton and have him say that it went into stuffed horse collars or Ostermoor mattresses. The refuse of low-grade cotton may have been used for that purpose, and if it please the gentlemen of this committee, as soon as I get through here I will show them the kind of stuff that comes out of low-grade cotton.

There is deliverable in New York contracts 16 grades of white cotton, ranging from good ordinary white to fair. It is perhaps, gentlemen, a misnomer to say there are 16 grades. I should say 16 qualities, embracing whole grades, half grades, and quarter grades. In addition thereto, there is deliverable on contract 6 grades of tinged cottons and 1 grade of stained cotton; in all, 23 characters of cotton, including white tinges and stains.

We have been held up to ridicule to the commercial world for having so many grades of cotton deliverable on contract. Gentlemen, in justice to the farmer, I want to go on record here before you personally and say I wish every grade of cotton that was classable which the farmer produces could be made deliverable on contract. Why? Because it furnishes the farmer, who has no control over the quality of his product, a market at its relative value which the spinners can use and do use in the manufacture of cotton cloth and various other branches of manufacture.

Mr. Lever. There is no cotton raised that is not spinnable, is there?

Mr. Neville. Yes. There is some cotton received that is not spinnable, and that is the stuff that some of our defamers have been confounding with cotton that they think is deliverable on contracts in New York. I want that to go in the record.

The Bureau of Corporations practically has approved the present method in New Orleans, and in the approving of that method they have 19 grades of white cotton that is deliverable on contract, and 11 qualifying descriptions of these white grades, and according to their by-laws it is possible to have about 140 qualities, which are deliverable on contract; making it possible to have 209 descriptions of cotton in New Orleans; and I submit here as evidence the certificate of the rules and by-laws of the New Orleans Cotton Exchange issued to its members after that certificate system was approved.

The following form of contract shall apply to all contracts maturing during and after the month of February, 1910:

CONTRACT.

NEW ORLEANS..........19..

In consideration of one dollar in hand paid, receipt of which is hereby acknowledged, ...have this day sold to (or bought from)............50,000 pounds in about 100 square bales of cotton, growth of the United States, deliverable from press or presses, railroad depot or depots, in the port of New Orleans, between the *first* and *last* days of............ next, inclusive.

The delivery within such time to be at seller's option, in not more than two places, upon five days' notice to the buyer.

The cotton to be of any grade from Good Ordinary to Fair, inclusive, and is stained, not below Middling, and if tinged, not below Low Middling, at the price of......cents (......) per pound for Middling, with additions or deductions for other grades, according to the quotations of the New Orleans Cotton Exchange existing on the sixth (6th) day previous to the day on which delivery is due.

It is distinctly understood and agreed that the receiver of cotton under this contract shall have the right to refuse all bales that contain perished staple, and all sandy, dusty, red, or gin-cut cotton; dusty cotton being defined under this contract as cotton lessened in value more than $\frac{1}{8}$c. per pound by reason of dust; sandy cotton being defined under this contract as cotton containing more than 1 per cent of sand.

Either party shall have the right to call for a margin, as the variations of the market for like deliveries may warrant, and which margin shall be kept good.

This contract is made in view of, and in all respects subject to, the rules and conditions established by the New Orleans Cotton Exchange, and in full accordance with rule 55 of said New Orleans Cotton Exchange.

For the purposes of this contract, Westwego and Southport are not included as places of delivery.

Signed............

FORM OF CLASSIFICATION RETURNS.

Rule 36.—In classing cotton the following form of return shall be used:

Tag No.	Grade.	Standard.	Off color.	Spotted.	Light tinged.	Medium tinged.	Tinged.	Light stained.	Medium stained.	Stained.	Flash dust.	Gritty.	Staple.
....	Fair..................												
....	Mid. Fair to Fair..........												
....	Mid. Fair..................												
....	St. G. M. to M. Fair........												
....	St. Gd. Mid................												
....	G. M. to St. G. Mid.........												
....	Good Mid..................												
....	St. to Gd. Mid..............												
....	St. Mid....................												
....	Mid. to St. Mid.............												
....	Middling..................												
....	St. L. Mid. to Mid..........												
....	St. Low Mid................												
....	L. M. to St. L. Mid..........												
....	Low Mid..................												
....	St. G. O. to L. Mid.........												
....	St. Gd. Ord................												
....	G. O. to St. G. Ord..........												
....	Good Ordinary..............												

The limit of grades tenderable is prescribed by the contract; no returns to be made of nondeliverable grades.

Gentlemen, as I stated to you this morning, the members of the New York Cotton Exchange—and I may say the other exchanges—welcome Mr. Burleson's resolution prescribing standardization of the grades of cotton, and I think Mr. Burleson, without intending it, has worked a hardship on the producer of cotton in not embracing in that requirement standard classification for tinges and stains. There are times in the raising of this crop when weather conditions make a preponderance of tinges and stains in cotton.

Mr. LEVER. Just what is the difference between tinges and stains?

Mr. NEVILLE. The difference between a negro and a mulatto. That is not intended as a short answer.

Mr. LEVER. It does not quite answer the point I had in mind.

Mr. NEVILLE. I wanted to answer you as briefly as I could, and I thought that described it. It is the difference, I should say, Mr. Lever, between chocolate with a little cream in it and chocolate with a great deal of cream in it.

Mr. LEVER. A difference in color?

Mr. NEVILLE. Yes. Gradations owing to the number of frosts the cotton has encountered, and the weather it encounters after the frost, up to the time it is gathered.

Mr. LEVER. The tinge comes more from frost bite, and your stain more from dirt, does it?

Mr. NEVILLE. A combination of the two; the frost and then the weather after the frost. It may not be known to you gentlemen, but the finest spinning cotton out of any crop are the tinges and stains, so far as the tensile strength of the fiber and the waste in manufacture are concerned.

The CHAIRMAN. Is there any process by which this stain and tinge cotton can be made perfectly white?

Mr. NEVILLE. They do not want to bleach it; they use it in colored goods, because it takes the dye better. We—and when I say "we" I mean the merchants of this country—will join Mr. Burleson, and I as a committee who assisted in the preparation of these standards in compliance with Mr. Burleson's resolution, will gladly offer my services to the Government to standardize tinges and stains; not that year in and year out they would be serviceable, but when a calamity comes to the producer, I ask you gentlemen, in all fairness, is it fair that that producer should not have some standard by which his crop may be measured?

Now, gentlemen, the question of quarter grades comes in. A quarter grade is a grade between this box and this box [indicating].

The CHAIRMAN. Indicating low middling——

Mr. NEVILLE. Indicating the box between strict low middling and low middling, indicating fully low middling. The word "fully" has come down to us in the shape of an inheritance from our English spinners, and the trade as they have that name have distinguished what is known as the quarter grades. These grades have been made with a view of having the classification over this country in such a way that this box here (strict low middling) will go Liverpool middling as commercially used. For cotton exchange purposes in Liverpool, that box [indicating] would not go Liverpool middling. Why? That is a buyers' market. It is a buying country. And when you hold an arbitration they exact the last pound of flesh. So that the

middling, in common acceptance of the trade, is not middling with their standard of classification for arbitration purposes.

I do not wish to criticize the method pursued in distributing these types in what I am going to say. The secretary can take this down, although it has no particular bearing on the main subject which we are discussing. It has, however, an important bearing in what I want to say a little further on.

The method of distribution as adopted by the Agricultural Department is one that necessarily is bound to be slow of accomplishment. For this reason: They have got to bring the cotton here to make up the standards for each box. You gentlemen can readily see the enormous labor and expense it is to bring cotton here from the South to put in these boxes, make it up, look it over, and send it back. It takes two or three men constantly working on it. And the one central point can not distribute as many as many subsidiary points could.

I suggested at the meeting which was held a year ago this month, in Washington, that when the committee fixed these standards they fix five sets, one set to be sealed by the Government and kept intact, another set to be kept by the Government for comparison purposes; and the three other sets to be sent, one to the New Orleans Cotton Exchange, one to the Texas Cotton Exchange, and one to the New York Cotton Exchange, so that people who wanted those types from those various localities could send to the exchange and have those types made up, based on the types which they received from the Government.

But before those types were sent out to the parties requesting them, those types should be forwarded by the exchanges to the Agricultural Department here at Washington and those types viséed by the department and the man in charge, and after he had made a comparison and approved of them, put his stamp of approval on them and send them direct to the people who asked for them, under Government seal.

I offer that now as a suggestion to the committee, in case your committee has anything to do with consulting the Secretary of Agriculture on that line.

That part of my talk is, perhaps, unnecessary, but it is made in my earnest effort to try to get these types distributed as quickly as possible.

The CHAIRMAN. Do you think it would be better than for the department to make up a large number of sets of these samples and send them out on demand?

Mr. NEVILLE. I think it would be quicker, and I think it would be more economical.

Mr. BURLESON. That is undoubtedly true, and will probably be the course adopted by the department just as soon as the exchanges adopt these standards.

Mr. NEVILLE. The exchanges are willing to adopt the standards as soon as they receive the first box.

Mr. BURLESON. Well, it was left rather indefinitely, I think.

Mr. NEVILLE. No; I beg your pardon.

Mr. BURLESON. The New Orleans people expressed a willingness to do it, but the New York people——

Mr. NEVILLE. You are wrongly informed. I was the first one, and the records of the department will show that I was the first one, to make a request for two sets of the standards that we wanted to adopt. The records will show that.

Now, gentlemen, I apologize for taking that much time to explain that phase of it.

Mr. Chairman, with your permission, we have here an expert classer, who is working for the department now making these types, and I have made a statement that the quarter grade between this box and this box, and this box and this box [indicating], and this box and this box [indicating], and this box and this box [indicating], and this box and this box [indicating], were a definable grade. He is an expert classifier of cotton, and with your permission I would like to produce him as a witness to testify to questions that I will ask him, subject to cross-examination.

The CHAIRMAN. They relate only to the classification?

Mr. NEVILLE. They relate only to classification; yes.

Mr. BURLESON. I do not think there is any controversy about that. The only question is whether it is practicable or not, and whether these quarter grades are used.

Mr. NEVILLE. Yes; they are used.

Mr. BURLESON. My contention is that they are not used, that they are not brought into use by the producer when he sells his cotton, and consequently it was not necessary for the Government to go to the expense of a gradation of that kind.

Mr. NEVILLE. I am not speaking of the expense of a gradation; I am speaking of what happens every day when the farmer sells cotton.

Mr. BURLESON. You may take the quotations in the southern papers, and you will see that they only quote seven full grades, not even nine grades. Take this morning's issue of the New Orleans Times-Democrat, and you will find that they do not quote as many grades as nine.

Mr. NEVILLE. I am not here to argue that with you at all.

Mr. BURLESON. Is not that the fact?

Mr. NEVILLE. I don't know whether it is a fact or not. I am a poor hand to carry figures in my mind. I am not arguing it from your point of view at all, Mr. Burleson.

The CHAIRMAN. The only question in the mind of the committee is whether there is any controversy about it.

Mr. NEVILLE. There is a controversy. We have been accused openly of having quarter grades on the New York Cotton Exchange which were undefinable and were not used in ordinary trade.

Mr. LEVER. I do not see any reason why we should not go ahead and let the witness testify.

The CHAIRMAN. Is Mr. Barbot the gentleman you wish to put on the stand?

Mr. NEVILLE. Yes.

The CHAIRMAN. Very well; will you be sworn?

Mr. BARBOT. I am sworn; I am an officer of the Government.

TESTIMONY OF WINGATE P. BARBOT, EXPERT COTTON CLASSIFIER.

Mr. NEVILLE. Mr. Barbot, you made these workable types for the department?

Mr. BARBOT. I did.

Mr. NEVILLE. I ask you to look at the grades, low middling, strict low middling, middling, strict middling, good middling, and strict good middling. Is there a definable difference between each of those half grades above and below middling?

Mr. BARBOT. There is.

Mr. NEVILLE. Is it used in the shipping and handling of cotton in the South?

Mr. BARBOT. Very largely.

Mr. NEVILLE. Mr. Barbot, you are one of the classers that classified the low-grade cotton in 1906 and 1907, that there has been so much discussion about, are you not?

Mr. BARBOT. Yes.

Mr. NEVILLE. Is that cotton that you classed, or the committee classed, unspinnable or unmerchantable?

Mr. BARBOT. It is not.

Mr. NEVILLE. That is all I have to say on this point, gentlemen.

Mr. BURLESON. I would like to ask Mr. Neville a few questions bearing on that proposition.

TESTIMONY OF MR. NEVILLE—Continued.

Mr. NEVILLE. While I have got light here, I would like to show you something I am going to talk on. I have finished talking on this particular feature, and while there is light in the room here I want to show you the result of tests I have had made of these full grades of cotton.

The CHAIRMAN. Perhaps you had better do that now, then.

Mr. NEVILLE. The cotton does not look here like it does in the open. It shows more or less defects. This cotton here [indicating] is one of ten bales I marked good middling, New York standard, which is the only standard we have in general use to-day. This is a sample below middling [indicating], this is low middling; and this is a sample of good, ordinary cotton, the lowest deliverable white cotton there is on any contract.

This cotton here [indicating] is a grade that some of our mill friends and some of our manufacturing friends want to make the basis of the contract [referring to low middling]. In ordinary years it does not make any difference whether we have a low middling or good ordinary contract, because if the grade is not there it does not affect the kind of cotton that the purchaser gets. But when you have conditions such as you had them in 1906 and 1907—1906 especially, which was the worst year—you have got to have a contract that will take care of the crop that is gathered. I am going to show you that this good ordinary cotton is a perfectly spinnable grade. Mr. Hubbard and I had one of our New England mill friends kind enough to tender us the use of his mill, and the services of the superintendents of several of his rooms. We indicated our intentions to the Department of Commerce and Labor and asked them to detail a man to go with us and witness these tests. They said they had no one they could give

us. One thing, they didn't have the money; another thing, they didn't have a man who was an expert. I then wrote the Census Department, the Bureau of Manufactures, and asked them for a man, and they said they didn't have anybody. In fact, we offered to pay their expenses, but we could not get anybody. Mr. Hubbard and I, as best we could——

Mr. COCKS. Did you try the Department of Agriculture?

Mr. NEVILLE. I did not, because, inasmuch as we were being investigated by the Department of Commerce and Labor and by the Census Bureau, I did not think to ask the Agricultural Department, although I am sorry now that I did not do so.

That was with the result, gentlemen, that in putting this cotton through the machinery, this is what we got out of it. This, gentlemen, is known as finished lap. That is a bat of cotton that comes out before it goes into the machinery. It takes a pretty keen eye to tell the difference between that cotton and that cotton [indicating].

The CHAIRMAN. Which came from which?

Mr. NEVILLE. This is the good middling, this is the middling, this is the low middling, and this is the good ordinary [indicating]. There is a marked difference here [indicating], but it is not as marked as between these [indicating]. The result of those experiments was this:

	Per cent.
The good middling lost	9.65
The middling lost	11.6
The low middling lost	14.85
The good ordinary lost	16.73

In other words, counting the gross weight of the bales and weight of the laps, there was that much discrepancy in the weight.

And also this mill man was kind enough to say: "I want to see a square deal; I have used your exchange under adverse and favorable conditions, and I want you to have a square deal. I spin all grades of cotton from the dog tails up to fair, and I have got low-grade cotton from your exchange, and I can use it all." He says: "Not only can you get what you are after, but if you want to take the time you can get it to a gnat's heel." A gnat's heel is what we are after. We want a fair spinnable value on which to determine differences between grades.

Those figures, gentlemen, that we got in a simple way are to a certain extent verified by German and Alsatian spinners, who are the smartest spinners in the world. Spinning is in its infancy with us, compared with what they get out of it.

Here is a letter addressed to the president of our exchange, giving figures in detail. This is from Germany. (Reading:)

Middling fair, 8 per cent loss; fully good middling, 9 per cent loss; good middling, 10 per cent loss; fully middling, 11 per cent loss; middling, 12 per cent loss; fully low middling, 14 per cent loss; low middling, 16 per cent loss; good ordinary, 24 per cent loss.

Now, Mr. Chairman, I want to say that you were the first gentleman to whom that information has ever been divulged. The members of our exchange are not yet in possession of it. We have a continuation and finishing of that test yet to make, and we are in process of making it now.

The CHAIRMAN. The idea of what you say conveys to my mind that the grades you have shown are spinnable, the question being, then, simply whether the differences which your exchange fixes repre-

sent with some degree of accuracy the actual difference in the values of the different grades.

Mr. NEVILLE. To a spinner?

The CHAIRMAN. To a spinner.

Mr. NEVILLE. To the trade.

The CHAIRMAN. And I believe you answered this morning that your revision committee was not governed wholly by its judgment as to the spinning difference in the cotton.

Mr. NEVILLE. No; Mr. Chairman, if I stated that, I did not understand the question asked me. My contention has been that our revision committee on the date that I was questioned did base their opinion on differences of the spinning value between the grades.

The CHAIRMAN. I understood you to be in disagreement as to the systems on both the exchanges.

Mr. NEVILLE. I am in disagreement.

The CHAIRMAN. And I thought you expressed your disagreement with the New York system by saying that in your judgment the difference should be determined wholly by the difference in spinning value.

Mr. NEVILLE. Yes.

The CHAIRMAN. Whereas the revision committee of the New York exchange allowed other factors to come in?

Mr. NEVILLE. I did not understand you this time, then. You are correct there, yes, sir.

The CHAIRMAN. What are those other factors?

Mr. NEVILLE. Well, I don't know what their line of reasoning was at that particular time; but they as a rule appear to get some idea of the value of those cottons South.

The CHAIRMAN. Then their judgment is made up of a sort of composite of the commercial difference growing out of the relation of supply and demand and the spinning difference?

Mr. NEVILLE. Yes, sir; that influenced them, no doubt.

The CHAIRMAN. Since we have entered upon that line, I will ask you a question I should like your opinion upon before we leave the subject. I understood you to say that you are a member of both exchanges?

Mr. NEVILLE. Yes, sir.

The CHAIRMAN. Do you mind stating to the committee upon which exchange you get the most satisfactory results, so far as those results grow out of the difference in the valuing of the grades?

Mr. NEVILLE. I would prefer not answering that question, because I can see some of my friends in New Orleans might take exception to the kind of criticism that I might inadvertently make, and I would rather not answer that question.

The CHAIRMAN. I ask it because there appears to be quite a distinct difference in the systems prevailing in the two exchanges. Mr. Marsh remarked that, inasmuch as these exchanges were in a measure in competition with each other, if the New York system was fatally wrong it would have to be changed to meet the competition, whereas if in the ultimate judgment of the trade it was right, it would survive, and it occurred to me that a gentleman who operated on both exchanges could give an opinion as to the merits of the two systems.

Mr. NEVILLE. I will answer this. I use the New York exchange more than I do the New Orleans exchange.

The CHAIRMAN. I do not care to press the matter any further.

I believe Mr. Burleson desires to ask you a couple of questions.

Mr. BURLESON. You say that there have been many unjust and unfounded charges made by the producers in the South?

Mr. NEVILLE. I don't think I mentioned producers once.

Mr. BURLESON. About the character of the stock?

Mr. NEVILLE. I didn't say a word about producers.

Mr. BURLESON. Who did you say was making the accusations?

Mr. NEVILLE. Well, I said a great many people who said they represented the producers made public speeches on the subject.

Mr. BURLESON. Well, all right; I will take it that way. Do they constitute the sole source of complaint against the character of stocks carried in New York?

Mr. NEVILLE. Well, I will say they constitute the bulk of the complaint. The rest of the complaints was more or less from soreheads.

Mr. BURLESON. Do you know Theophilus Parsons?

Mr. NEVILLE. I know of him.

Mr. BURLESON. I will ask you if he is not president of the Arkwright Club?

Mr. NEVILLE. Yes, sir; which is the biggest mill organization there is in the world.

Mr. BURLESON. You mean an organization consisting of cotton consumers?

Mr. NEVILLE. An organization consisting of cotton manufacturers, and the biggest, most secret, most powerful organization there is in the world. I am glad you mentioned him.

Mr. BURLESON. All right. Let us see about that. He was the president of it, was he not?

Mr. NEVILLE. Yes.

Mr. BURLESON. I want to read this to you and see if you agree with the statement, made by Mr. Theophilus Parsons, and if you say they are not true you are at liberty to give the reasons why you think so.

The CHAIRMAN. We can not hear you, Mr. Burleson.

Mr. NEVILLE. Before I answer that——

Mr. BURLESON. I have not propounded my question yet.

Mr. NEVILLE. I know what you are going to propound. One minute. Mr. Chairman, I have got no objection in the world to answering the letter which Mr. Burleson is going to quote me from Mr. Parsons, president of the Arkwright Club, of Boston——

Mr. BURLESON. I think I ought to be permitted to propound my inquiry first. It is rather unusual, I think, for the answer to be given before the question.

Mr. NEVILLE. It is my ignorance of parliamentary law, perhaps, that causes me to talk too soon.

Mr. BURLESON. I addressed a communication to Mr. Parsons in the early part of 1908, in which I propounded two inquiries. I will read them:

Do you, in the conduct of your business as a cotton manufacturer, find it necessary frequently to resort to the future markets of New York and New Orleans as a means of protecting yourself against unforeseen fluctuations in the price of raw cotton?

The second inquiry was:

Does the existing apparent disparity between the prices of future contracts and the price of middling cotton in the South and elsewhere operate to the advantage or disadvantage of the manufacturer?

He answered as follows:

In answer to the first question, I use the word *never*, for the reason that the manufacturer, when he buys upland cotton in the New York Cotton Exchange, has no idea whatever what he is buying. They can tender a spinner straw, cotton seed, or even the wood of the cotton plant mixed together at a difference in price, the value of which price no living man is able to determine. By having thousands of bales of this material in store in the two large cities they are able to maintain the market in such a way that I answer your fourth question that the member of the exchange makes his money on so-called differences. They can manipulate these differences with the stock of trash they have on hand. Some years ago you will find that many mill treasurers in the United States favored encouraging the future market, and this was quite right, for at that time grades, such as stains, gin cuttings, and so forth, were not permitted for differences, and the spinner could use the cotton that was tendered to him. But like everything else they have killed the goose that laid the golden egg, and have made their rules such that they can deliver trash which it is impossible to spin. This will eventually work to their disadvantage and possibly kill their business, and then they will reform their rules.

Mr. NEVILLE. How do you want me to answer that question?

Mr. BURLESON. I want to ask you first whether there is any truth in the statements made by Mr. Parsons that I have read to you?

Mr. NEVILLE. Mr. Burleson and Mr. Chairman, my indignation at a charge like that from a man who states he never used it—if he never used it, how does he know what he gets? If Mr. Parsons was here and made that charge I would say to him what I hesitate to say to this committee, for decency's sake. How can a man say he gets straw where he says he never uses the market? That is the way I answer that question.

Mr. BURLESON. That is your answer? You say he is president of the largest mill concern there is?

Mr. NEVILLE. Largest organization of mills in the world. He says he never used the market. Mr. Chairman, I must confess that if Mr. Burleson is going to read such stuff as that, which is absolutely incapable of proof, I think it is a reflection on this committee, and certainly I construe it to be a reflection on me.

Mr. BURLESON. Do you know Mr. Theophilus Parsons?

Mr. NEVILLE. I have not had the pleasure of knowing him, and don't want to know him.

Mr. BURLESON. He is honored by being placed at the head of this club.

Mr. NEVILLE. That is all right; but I know what I am talking about when it comes to grades of cotton in New York, as I have proven to you to-day.

Mr. BURLESON. I will read from J. Knox Smith's report at page 262. In this connection one of the largest spot merchants in the New York market, who is also a member of the exchange, says:

There is no question but that there is a large amount of that inferior cotton here. These men who get control of a large amount of contracts and want to weaken the market—that is, the spot brokers—do not want to handle and finance actual cotton. They will throw a lot of this stuff over which they have got to transfer to a different month or themselves finance it. This has been acting as a club, and I think it is one of the worst features of the exchange. A combination will get together a lot of this low grade cotton, and before notice day there would be a high market, and they throw it right on the market, and of course it would force the market down, sometimes a half a cent.

Q. And then they take back their contract?

A. Yes; and very often at a lower price, and thereby make what is called a turn. They might have sold short, and they throw this low cotton on the market and lower the price a half a cent, and then buy it in again.

Q. Has that been an extensive practice?

A. Right along.

Q. So that the same cotton has been sold again in this way a great many times?
A. Without question.

Is that true or false?

Mr. NEVILLE. Well, I should say perhaps a little of both; about six of one and half a dozen of the other.

Mr. BURLESON. Half true and half false?

Mr. NEVILLE. That is the best answer I can give.

Mr. BURLESON. What part is false?

Mr. NEVILLE. That part he says is true, and what he says is true is false.

Mr. BURLESON. That is the answer you desire to give on the record, is it?

Mr. NEVILLE. I think that is a good answer to such rot as that.

Mr. BEALL. What do you say to a statement like this:

At a meeting of the revision committee in November, 1907, Dr. J. H. Parker, president of the exchange and a member of the committee, said some of the cotton was exceedingly low in grade; also that some of the stock had been on hand for four years and was not taken out for the reason that it was of such poor quality that it was undesirable at the grade "differences" then existing.

Mr. NEVILLE. It may have happened. It very often happens that there are lots of low-grade cotton that are perfectly spinable that, where the supply exceeds the demand, might not be consumed before a new crop comes in.

Mr. BEALL. That statement was made by Dr. J. H. Parker, president of the exchange.

Mr. NEVILLE. I understand; I am not controverting it. I am very much obliged for saying who it was made the statement, because Mr. Burleson has not been so considerate in the questions that he has read. He has not given the names of the men from whom he quoted.

Mr. BEALL (reading):

Various grades of cotton certificated by the New York Cotton Exchange in the crop years 1890-91 to 1906-7, inclusive.

What is meant by the word "certificated?"

Mr. NEVILLE. That means the cotton that has been inspected for irregularities, such as unspinable, gin cuttings, straw, feathers, and what not. "Certificated" signifies to the world that that cotton has been inspected and classed by the classification committee of the New York Cotton Exchange, has been given grades, that grades have been specified in that grade certificate, and the holder of that certificate—gentlemen, I want you to mark this—the holder of that certificate, if he thinks that cotton is not properly classed, has the right under the by-laws to demand that that cotton be resampled and reweighed and reclassed, and if there is a difference in class of the reclassed cotton and what he paid for, the Cotton Exchange is responsible for such difference.

Mr. BEALL. Am I to understand that certificated cotton means cotton that can be delivered upon the contracts?

Mr. NEVILLE. Yes; after it has been classed.

Mr. BEALL. This table here shows grades of certified cotton in New York warehouses on January 10, 1907. The total was 115,697 bales of certificated cotton in the warehouses in New York.

Mr. NEVILLE. What date is that?

Mr. BEALL. January 10, 1907.

Mr. NEVILLE. Yes, sir.

Mr. BEALL. Of that amount, something like 3,000 bales were of middling grade, or above it?

Mr. NEVILLE. Yes, sir.

Mr. BEALL. Six thousand bales strict low middling; 17,000 bales fully low middling; 21,000 bales low middling; 19,000 bales barely low middling; 11,000 bales strict good ordinary, and so forth down the line, getting down to strict low middling tinged, 9,000 bales, and low middling tinged, 6,000 bales.

Mr. NEVILLE. Yes, sir.

Mr. BEALL. That would indicate that of the 115,697 bales all but about 3,000 bales were below the grade of middling?

Mr. NEVILLE. Yes, sir; and that indicates more than that, Mr. Beall.

Mr. BEALL. I would be glad for you to state what it does indicate.

Mr. NEVILLE. I anticipated that question.

I have here before me the New York Cotton Exchange market report for January 10, 1907, which shows that the certificates outstanding January 9 were about 120,329 bales. But I have taken the class from Mr. Burleson's speech delivered on February 4, 1907, and if I might read the grades that I have taken from that speech I would like to do so. He had a certificate of class received from Mr. John Tanner, who was then chairman of the warehouse and delivery committee.

Mr. BURLESON. Which one?

Mr. NEVILLE. The argument you made February 4, when you asked for this investigation of the exchange.

Mr. BURLESON. That is when I introduced the resolution.

Mr. NEVILLE. Yes; and submitted a statement.

Mr. BURLESON. I have not that one before me, but I have this one [indicating].

Mr. NEVILLE. I can not use that one, because there is a half hour's figuring here.

Mr. BURLESON. Very well, then. When Mr. Neville gets through with that one, I will put this one in the record.

Mr. NEVILLE. Mr. Beall, that statement indicates to me more than you said, sir. From my handling of the cotton business that season, the New York stock on that day was a very fair average of the stock of cotton existing in the South for sale by the planters and the merchants. That stock of cotton averaged low middling cotton on an exact calculation based on the differences existing in the New York market for that day for each grade above and below middling. Mr. Beall and gentlemen, if a thing does not exist, it is hard to get, is it not? Now, in all candor——

Mr. BEALL. I do not raise any question about all this cotton existing, that you could have found those grades in the South.

Mr. NEVILLE. But we have been criticised because in that disastrous year a spinner wanting to buy cotton could not go to the New York market and buy contracts and get strict middling cotton. We have been criticised for that by Mr. Parker——

Mr. BEALL. Could he go to the New York market at that time and buy a contract with any assurance that low middling would be delivered to him?

Mr. NEVILLE. A spinner who wanted low middling at that time could have gone to any man who had a stock of cotton in New York and could have bought a selection of certificates, the certifi-

cates, I dare say, not containing over four grades of cotton, and could have gotten an average of any grade of cotton.

Mr. BEALL. He could not have gotten that sort of cotton on the New York Cotton Exchange, could he? Of course you, as a member on the outside, could sell to Mr. Hubbard, who might be a spinner in a particular grade of cotton; but if Mr. Hubbard came onto the floor of the New York Cotton Exchange and bought a thousand bales of cotton from you, could he have secured from you under that contract the delivery of any particular class of cotton?

Mr. NEVILLE. No, sir. He would have gotten exactly what he bought when he went into the market, when he bought it. He would have gotten 100 bales of cotton of practically 50,000 pounds weight, containing grades deliverable on contract at so much per pound, based on middling, with deductions or additions of grade below or above middling.

Mr. BEALL. And you would have delivered to Mr. Hubbard, the spinner, the quality of cotton that there was at that time the least demand for, would you not?

Mr. NEVILLE. I can not say I would. I would in all probability have delivered to him some cotton which by its storage date on the warehouse receipt would enable me to get rid of storage; or I might have delivered him cotton that is what we know as an "expirer"—that is, lacking a few days of reaching the point where the cotton had to be reweighed and reclassed again.

Mr. BEALL. How often does that reclassification and reweighing have to occur?

Mr. NEVILLE. Once a year.

Mr. BEALL. Well, you would in all probability have delivered to him the cotton that you could have delivered to him most advantageously to yourself?

Mr. NEVILLE. Most assuredly I would, sir. When he bought it he ought to have known he would get it that way.

Mr. BEALL. And that would be the class of cotton that there was the least demand for ordinarily, unless some of these special reasons intervened?

Mr. NEVILLE. No; as much as I would like to answer that in the affirmative, Mr. Beall, I can not consistently do it. I would have given him the cotton that suited me best to give him.

Mr. BEALL. Well, would it not suit you better to give him the cotton that there was the least demand for?

Mr. NEVILLE. Not altogether. I might have had cotton in there which I knew a demand would come for—and that was the case.

Mr. HOWEL. Are all the grades of cotton dealt in on the New York Cotton Exchange?

Mr. NEVILLE. Yes; every one of them.

Mr. BEALL. I understand that when a man buys on the New York Cotton Exchange a hundred bales, to be delivered in October, say, that you have the right to determine the particular grade of cotton that you will deliver to him?

Mr. NEVILLE. Yes, sir.

Mr. BEALL. He has no voice at all in the matter?

Mr. N[illegible] [illegible] ys a basis middling contract.

[illegible] he has no voice in saying whether he

[illegible] of the lowest grades under

Mr. NEVILLE. He has a voice in this way, Mr. Beall.

Mr. BEALL. I mean after he makes the contract; then the option as to the kind of cotton he shall receive rests with you?

Mr. NEVILLE. Yes, except this way: When he buys that contract from me he knows he is buying a basis of middling contract, and he knows the terms under which he is buying it. It frequently happens that spinners, buyers, buy a contract for a mill, and when they find who they have bought that contract from they go to the seller and say, "Look here, old man; I want a hundred bales of low middling," or a hundred bales between strict low middling and low middling, "and if you will give me a selection of certificates I will pay you 10 points on."

Mr. BEALL. He pays a premium for the right to exercise that option himself?

Mr. NEVILLE. No; I didn't say that, and I do not think you can infer that from what I said.

Mr. BEALL. All right.

Mr. NEVILLE. I said he paid a premium of 5 or 10 points for selecting the quality that he wanted.

Mr. BEALL. Can you explain the distinction between what you just said and what I indicated?

Mr. NEVILLE. I think the distinction is there; I can not explain any more than that, however much I would like to do so.

Mr. BEALL. I appreciate your accommodating spirit, but still I can not see any difference between my statement and yours. Well, now, under that contract the operator that sells the contract for delivery in October has the option of determining upon what day in October that delivery shall be made; is that true?

Mr. NEVILLE. He has the option of delivering that cotton any time during that month.

Mr. BEALL. There is only one day in October that the buyer can demand the delivery?

Mr. NEVILLE. Yes, sir.

Mr. BEALL. That is the last day of October?

Mr. NEVILLE. Yes, sir.

Mr. BEALL. While the seller has thirty-one days in which he can make that delivery?

Mr. NEVILLE. He has as many days as there are delivery days in the month.

Mr. BEALL. While the buyer has one day in the month.

Mr. NEVILLE. Mr. Beall, that point would be well taken if the buyer did not know those conditions when he bought.

Mr. BEALL. I recognize he knows them, but I just want to get at the terms of the contract. Now, you operate on the exchange. Do you ever buy or sell cotton except for the purpose of hedging spot transactions?

Mr. NEVILLE. No, sir.

Mr. BEALL. You do not?

Mr. NEVILLE. No, sir.

Mr. BEALL. To what extent does that prevail on the exchange, such a practice as is referred to, in your judgment?

Mr. NEVILLE. I think that would be very hard to answer, and I must confess I am not competent to answer it.

Mr. BEALL. In your judgment there are operators on the New York Cotton Exchange who buy and sell not for the purpose of pro-

tecting any spot transaction and really not for the purpose of delivering cotton and receiving cotton; is it your judgment that there are such transactions on the exchange?

Mr. NEVILLE. There may be.

Mr. BEALL. Is it not your judgment that there are existing such conditions, not simply a possiblity, but is it not your opinion that that condition exists?

Mr. NEVILLE. I dare say such conditions do exist; naturally, in the nature of the business, they would exist; but what proportion they are I am unable to say.

Mr. BEALL. You can not state the proportion, but you are satisfied that such a practice does prevail on the exchange?

Mr. NEVILLE. I have said it doubtless happens; yes.

Mr. BEALL. Do the operations of that kind, in your judgment, have a tendency to affect the price of spot cotton?

Mr. NEVILLE. I should think, Mr. Beall, that would depend very much on the nature of the scalper. If it was a selling scalper it would affect it temporarily, or if it was a buying scalper it would affect it temporarily. Then in the long run it doesn't make much difference——

Mr. BEALL. No, it doesn't make any difference whether he is a selling scalper or a buying scalper; it doesn't make any difference as to the character of the scalper.

Mr. NEVILLE. I do not think it makes any difference one way or the other.

Mr. BEALL. You do not think it affects the market very much?

Mr. NEVILLE. No, sir.

Mr. BEALL. Do you think that is a good practice to prevail on the New York Cotton Exchange?

Mr. NEVILLE. I do not think it is a bad one.

Mr. BEALL. Do you think it is a good one?

Mr. NEVILLE. Yes; I think that anything that creates a demand for cotton is good. There must be a demand where there is a sale.

Mr. BEALL. That feature of the New York Cotton Exchange meets your approval?

Mr. NEVILLE. Yes, sir.

Mr. BEALL. That is the basis of a great deal of criticism of your cotton exchange.

Mr. NEVILLE. I don't know. There seems to be so much criticism it is pretty hard to find what people do want.

Mr. BEALL. Well, you think that if that is the basis that even that is not a just matter of complaint against the exchange?

Mr. NEVILLE. I am not a censor of morals and I would like to answer that question, but that "even that" in there is pretty hard for me to get at.

Mr. BEALL. I will ask you this. If there is anything connected with the New York Cotton Exchange that you do not approve of.

Mr. NEVILLE. That is a pretty hard question to answer, sir. I would have to be a wizard to answer that.

Mr. BEALL. Well, have you ever seen any practices there that you think ought not to prevail?

Mr. NEVILLE. No, I must confess I don't think I have.

Mr. BEALL. So far as you can tell, after an experience of a good many years on the cotton exchange——

Mr. NEVILLE. You are assuming that I am on the cotton exchange all the time, and I am not.

Mr. BEALL. Well, as a member of the New York Cotton Exchange, after all these years as a member of the exchange, you can not cite us to anything connected with the operation of that exchange that you think should be remedied?

Mr. NEVILLE. You bet I can!

Mr. BEALL. I want you to cite me one thing connected with the operation of the exchange that you think should be remedied.

Mr. NEVILLE. Do you surely?

Mr. BEALL. Yes; I am anxious now to see some specific practice that prevails on the cotton exchange that you think should be remedied.

Mr. NEVILLE. No; you didn't say that.

Mr. BEALL. Well, you can answer the question.

Mr. NEVILLE. You asked me if there was anything in my experience, anything in the cotton exchange that I thought desirable to change, and I am going to answer that question.

Mr. BEALL. Very well, answer that question.

Mr. NEVILLE. Just what I told you, gentlemen, in regard to the fixing of difference between grades.

Mr. BEALL. You have told that. Is there anything else?

Mr. NEVILLE. That is all I know.

Mr. BEALL. That is the only correction you would make in the rules or practices of the exchange?

Mr. NEVILLE. Yes, sir; so far as I can recall now.

Mr. BEALL. With that one change, in your judgment, the system would be as perfect as possible for fallible mortals to make?

Mr. NEVILLE. Well, I think so, sir. I don't think I have misstated it, either.

Mr. BEALL. Do you agree with Mr. Marsh, that upon a declining market the risk of the cotton trade falls upon the producer, but that on an advancing market the risk of a cotton trade is distributed throughout the world and falls upon the consumer?

Mr. NEVILLE. Mr. Beall, I am not much of a political economist.

Mr. BEALL. And I am not, either, and so I am asking for information.

Mr. NEVILLE. And I must confess I have not looked at that phase of the subject.

Mr. LEVER. I would like to inquire a little about this scalping business.

Mr. NEVILLE. I thought you were through an hour ago; you said you only had one question.

Mr. LEVER. How do they differ from the ordinary transactions——

Mr. NEVILLE. There is no difference.

Mr. LEVER. Delivery is intended all the way through?

Mr. NEVILLE. Absolutely all the way through, and they take it, too.

Mr. LEVER. They take it?

Mr. NEVILLE. Yes.

Mr. BEALL. I want to ask you a question which you need not answer if you do not want to, because it is with reference to your own dealings. What is the largest amount of cotton that you have ever bought upon the New York Cotton Exchange in any one transaction?

Mr. NEVILLE. Twenty-five thousand bales.

Mr. BEALL. What is the largest amount of actual cotton that has ver been delivered to you on the New York Cotton Exchange?

Mr. NEVILLE. Eighty-two thousand bales.

Mr. BEALL. Twenty-five thousand bales is the largest amount you ave ever bought and 82,000 bales is the largest amount that has ever een delivered to you.

Mr. NEVILLE. Yes, sir; and I paid for it in one day, took it up and aid for it in one day.

Mr. SIMS. I would like to ask you a little further, continuing the ubject that I was asking you about this morning. I asked you bout the possibility of selling cotton at this time, say in February, o be delivered in October or December, and the basis of such a sale, nd instead of answering the question directly you detailed a transaction you had with a spinner in South Carolina and stated that you ought for that spinner October futures.

Mr. NEVILLE. Yes, sir.

Mr. SIMS. Who sold you those futures—a member of the cotton xchange?

Mr. NEVILLE. Yes, sir.

Mr. SIMS. How did he get those futures?

Mr. NEVILLE. I told you the only way I could——

Mr. SIMS. Who supplied them?

Mr. NEVILLE. I don't know who supplied them and I don't want o know. All I know is that that merchant on the exchange, or nerchants on the exchange, had enough cotton to sell at that price.

Mr. SIMS. You mean October cotton——

Mr. NEVILLE. Yes; had enough October cotton to sell at that price o satisfy my spinner's demand.

Mr. SIMS. Did the cotton exchange member that sold you 25,000 ales have a way to hedge against a possible loss on the selling side of hat contract?

Mr. NEVILLE. Mr. Sims, you are assuming those merchants do that elling for their own account. Now, what was in the minds of the ustomers for whom they sold I don't think anybody can tell.

Mr. SIMS. Was it not impossible for the sellers of that October otton to you to have any hedge or anything in the nature of a hedge n the New York Cotton Exchange?

Mr. NEVILLE. No, sir.

Mr. SIMS. If they had actual cotton they could deliver?

Mr. NEVILLE. No, sir.

Mr. SIMS. Then persons in order to hedge, it is necessary that omebody through the cotton exchange has to take a pure, speculaive, unhedged risk?

Mr. NEVILLE. Not necessarily. It might have been the reverse of hat.

Mr. SIMS. In October?

Mr. NEVILLE. Yes; except that I will take June instead of your February.

Mr. SIMS. But I am taking October for next year.

Mr. NEVILLE. I will say June, 1910, and October, 1910. I will ake that—except that this really happened in 1907. Another South Carolina spinner——

Mr. SIMS. Can you not answer without giving a long detailed ransaction?

Mr. Neville. I can not do it; the best way to answer a question of yours is to give an actual happening.

Mr. Sims. They complain when I ask questions that it takes so long——

Mr. Neville. I can not answer always flatly; I have to give some explanation when you ask your questions. Another South Carolina spinner, well known to Mr. Lever, came to me in my office and said, "Neville, I am up against it." I said, "What's the matter?" He says, "I've got 8,000 bales of spot cotton on hand. I have the equivalent of 4,000 bales of manufactured goods on hand, which I can not sell without a loss." He manufactures gingham. He says, "The gingham market is such that if I accept the price I can sell my gingham I will lose money. But I know this," he said, "this depression will pass over." I said, "There is not a thing for you to do except to sell 12,000 bales of October contracts ahead against your manufactured goods unsold and against your cotton unsold." He says, "All right, sell them." And I sold them for him. And now, I don't say that it did happen, but that thing might have happened when I bought that 25,000 bales. That is my answer to that question.

Mr. Sims. Do you imagine that all cotton sold through members, not by them on future months, even into another year, grew out of just such conditions as that?

Mr. Neville. I did not say that.

Mr. Sims. I know you did not, and that is why I am trying to get you to the point. I will ask you if it is not a fact there are a vast number of contracts sold by persons who are not hedging and have no cotton or cotton goods or any other existing element of cotton value to discharge that contract?

Mr. Neville. Nothing would please me better than to give you a flat answer, Yes, but I can not do it truthfully.

Mr. Sims. I want you to answer truthfully, of course.

Mr. Neville. I am trying to do so. I have told you that some of it may have been purely speculative.

Mr. Sims. Just another question and I have done. Is it possible to operate the New York Cotton Exchange as a hedge to actual dealers like yourself with speculative transactions eliminated?

Mr. Neville. How are you going to eliminate speculation?

Mr. Sims. I say, would it be possible to operate it if all that kind of transaction was eliminated, if it could be done?

Mr. Neville. That is a question I have never given much thought to. I am not on the exchange a great deal, and with the exception now and then of a sporadic season, such as this year, there is not any excessive speculation; and right on that point, if I may be permitted, Mr. Chairman, I would like to give you a little résumé. If the cotton producer this year should have sold his cotton to the manufacturer on the basis of what the manufacturer said it was worth to him in finished goods, he would not have gotten 10½ cents for the crop. Last year, owing to your big crop, 14,000,000 bales, practically—a year ago everybody was as blue as indigo and cross and crabbed because cotton was selling around 9½ cents and going to 7½ certain, and perhaps 7 cents. Speculators thought it was cheap, owing to the unfavorable weather conditions in Texas, and bought it; and they bought it and bought it and bought it, with the result that the farmer has marketed his cotton this year on an aver-

age of better than 13½ cents, I believe. I think that would be about the average price.

Mr. SIMS. I say frankly that I think speculation on this past crop has been a great boon to the grower.

Mr. NEVILLE. Now, how to eliminate speculation is something that is too much for me.

Mr. SIMS. We do not want to eliminate investment speculation, but investments by monopoly and up-and-down contracts and manipulation for making a man turn loose his margin——

Mr. NEVILLE. Mr. Sims, I am perfectly astounded to hear so much of that from thinking men since I have been in this room. I am perfectly astounded to presume that a set of reputable merchants could and would, would if they could do it, get together to shake out such as you describe——

Mr. SIMS. I accept every word you say, that you do not do that sort of thing; but men who operate through you, called great operators, manipulators, do that sort of thing.

Mr. NEVILLE. I beg to differ——

Mr. SIMS. What do you mean when you say "running a bull campaign?"

Mr. NEVILLE. That is newspaper talk; I don't know what it means.

Mr. SIMS. And when you say the "Brown & Hayne campaign," what do you mean?

Mr. NEVILLE. I don't know——

Mr. SIMS. I know what they mean; at least I know what they claim. They are "out for the goods," as they say.

Mr. NEVILLE. If you know, you know more than I do.

Mr. SIMS. What do you mean by "shaking out the shorts?"

Mr. NEVILLE. I don't know. It seems to me the proper expression would be "poke up the shorts" and "shake out the longs."

Mr. HEFLIN. Why do you limit the number of members of the New York Cotton Exchange?

Mr. NEVILLE. I don't know; I could not answer that.

Mr. HEFLIN. Do you know how many members of the New York Cotton Exchange live in the cotton belt?

Mr. NEVILLE. I could not say.

Mr. HEFLIN. Mr. Marsh, who is vice-president of the exchange, said in a speech in New York two or three years ago, "All of the arteries of the cotton world lead not merely to New York, but to the very floor of the Cotton Exchange." Do you think that is true?

Mr. NEVILLE. Yes, sir.

Mr. HEFLIN. Now, then, if the New York Cotton Exchange is so powerful in the cotton world, don't you think the number of members of that exchange, if it is going to exist at all, should be unlimited, so that from time to time new men from different sections of the country could buy seats on the exchange, and in that way all sections of the country could be represented?

Mr. NEVILLE. I have never known a man who applied for membership, if he had the price, that did not get it.

Mr. HEFLIN. But it is limited, so you can not have over 450 members.

Mr. NEVILLE. That is true.

Mr. HEFLIN. I have seen the statement that only 30 or 40 members belonging to that exchange live in the South.

Mr. NEVILLE. I could not answer that.

Mr. HEFLIN. Are there any foreigners who are members of the exchange?

Mr. NEVILLE. Yes, sir.

Mr. HEFLIN. Do you belong to the Liverpool Exchange?

Mr. NEVILLE. Yes, sir.

Mr. HEFLIN. Does Mr. Marsh belong to the Liverpool Cotton Exchange?

Mr. NEVILLE. Yes, sir.

Mr. HEFLIN. Does Mr. Hubbard belong to the Liverpool Exchange?

Mr. NEVILLE. I presume so.

Mr. HEFLIN. You said this morning that the Liverpool Exchange was run by the spinners of England, or in their interests.

Mr. NEVILLE. Yes.

Mr. HEFLIN. And how many foreign members belong to your exchange?

Mr. NEVILLE. I could not answer that.

Mr. HEFLIN. Who is there here who can answer that? (After a pause.) I believe those are all the questions I have to ask.

Mr. HUBBARD. I do not think Mr. Neville brought out the fact that the associate members have no vote in the Liverpool Exchange, and that no member can be an active member of the Liverpool Exchange unless he resides in England. They elect associate members, however, who have no vote.

Mr. HEFLIN. I think Mr. Cone said he belonged to every exchange in the world.

Mr. NEVILLE. He said he was an associate member of the Liverpool Exchange.

Mr. HEFLIN. My recollection is that he said he was a member of every exchange.

Mr. HUBBARD. He could not have been a full member of the Liverpool Exchange.

Mr. BROOKS. I have never heard it mentioned in the discussion, and I want to ask this: Do you consider that a forfeiture of margin is in any sense a payment of damage for a noncompliance with a contract?

Mr. NEVILLE. It seems to me that there is a legal question involved that I am not competent to answer.

Mr. BROOKS. You would not care to commit yourself on that point?

Mr. NEVILLE. I don't know anything about it. That is a matter for a lawyer.

Mr. BROOKS. Well, do you think it possible to gamble on the exchange?

Mr. NEVILLE. That requires a scholastic definition of the word "gamble," which I am not prepared to give.

Mr. BROOKS. You do not know, then, whether you think it is gambling or not to deal in margin certificates purely?

Mr. NEVILLE. No; I don't think it is gambling.

Mr. BROOKS. You think gambling is immoral as a general proposition, do you not?

Mr. NEVILLE. It depends altogether on how you play it and who plays it. I have known people who sat down to a 10-cent game who didn't regard it as gambling.

Mr. BROOKS. Well, who is to blame if gambling is done—the exchange or the people who patronize it?

Mr. NEVILLE. I think the people who patronize it for gambling purposes should have a guardian appointed for them.

Mr. BROOKS. And you think the punishment should be placed on the victim and not on the tempter?

Mr. NEVILLE. The tempter? That is the weakest admission; honestly, I am surprised at that.

Mr. BROOKS. That logic carried out would punish the unfortunates instead of the one that got them into trouble.

Mr. NEVILLE. Now, Mr. Brooks——

The CHAIRMAN. Let us not enter into speculative philosophy.

Mr. BROOKS. Well, I think it has been contended here that sometimes an investment in a cotton contract on the exchange results in profit to one and in loss to the other; and at other times it results in profit to one without necessarily the other party's losing. Is that the way you understand it?

Mr. NEVILLE. Mr. Brooks, I can conceive where a person would have a venture, as you call it, where he would lose money, and I can also see where he would not lose money. For instance, I know a planter that did not want to carry his cotton; he thought cotton was going up. He sold his spot cotton at a price and got his money, and he bought 200 bales of futures to carry for the advance instead of carrying his spot cotton, which cost him interest, insurance, and storage. The market went down and he lost the money. He would have lost it on his spot cotton, too. Consequently he didn't lose any money.

Mr. BROOKS. The point I want to get at is this: There are two kinds of results. One is that one's profit is the other's loss; and the other is that one's profit is not the other's loss.

Mr. NEVILLE. I can not distinguish those two.

Mr. BROOKS. You do not see that far through the proposition, then. I was going to ask if the case where one's profit was not the other's loss could be designated as a case of unearned increment?

The CHAIRMAN. Pardon me, Mr. Brooks, but I do not believe we can go into that. It hardly has a bearing on the question immediately before the committee, and it is too much a matter of speculation.

Mr. BROOKS. All right. I want to ask one more question and then I will be through.

You do not know what per cent of the 80 per cent that the members of your exchange handle of the cotton crop of the United States is handled on the floor of the exchange, do you?

Mr. NEVILLE. Do you mean the physical handling?

Mr. BROOKS. Yes.

Mr. NEVILLE. Not a bale of it. I think I am fair in stating that. The proportion, Mr. Brooks, that the members handle would be very hard to determine, for this reason: In the active season—that is, when the crop is being marketed actively, when a merchant has sales on his books and is buying his cotton to apply against those sales, he sometimes—but not very often—is able to make further sales as he is buying his spot cotton. Consequently, there are no hedge transactions for purchase against the cotton he buys that day if he sells as much as he buys.

Mr. BROOKS. I don't think that is just what I want to bring out. I just want to know this: Of the spot cotton transactions your

members handle—you say 80 per cent of the cotton crop of t United States—what per cent is handled on the floor of the exchan and delivered on contracts?

Mr. NEVILLE. Now I catch what you are after. You did not p in the last part of it in your first query. Well, that is very hard t answer, simply because while the cotton is hedged by the membe of the cotton exchange the actual delivery of that cotton very oft is unnecessary. But roughly speaking——

Mr. SIMS. State in answer to his question how much certificate cotton goes through the exchange.

Mr. NEVILLE. I was going to give the amount delivered on co tracts in one year. In the season of 1908–9 there were 506,800 bal

Mr. BROOKS. And you handled 80 per cent of that?

Mr. NEVILLE. Yes. That was actual physical delivery through th exchange.

Mr. BURLESON. You do not mean to say that there were that man bales?

Mr. NEVILLE. Yes.

Mr. BURLESON. Is it not a fact that the same certificate is tender and retendered time and again sometimes?

Mr. NEVILLE. Sometimes, yes.

Mr. BURLESON. And does not that enter into the number of bales

Mr. NEVILLE. Partly it does.

Mr. BURLESON. Then, as a matter of fact, there were not 500,00 bales?

Mr. NEVILLE. Yes; five hundred thousand odd bales on contract

Mr. BURLESON. It may be noted that these tenders of cotton a New York unquestionably mean that a considerable amount of cotto was tendered again and again, since for several years the total tende have greatly exceeded the total amount of cotton certificated.

Mr. NEVILLE. But I answered the question that he asked.

Mr. BURLESON. But you do not mean that it means 500,000 bale of cotton?

Mr. NEVILLE. I do not mean to say 500,000 bales certificated and I did not say that.

Mr. SIMS. Then please answer that as though that were the ques tion. How many bales came in and went out as individual bales not tendered and retendered receipts, not that went through the por of New York, but inspected in the warehouses.

Mr. NEVILLE. I understand. I would say, roughly speaking, gen tlemen, two-thirds of it. That is only approximate.

Mr. HOWELL. Is classification of cotton on the Liverpool and European markets substantially the same as it it in New York?

Mr. NEVILLE. Not grade name for grade name, sir, as I explained.

Mr. HOWELL. Is there any arbitrary difference?

Mr. NEVILLE. No arbitrary difference.

Mr. HOWELL (continuing). Fixed between the different grades?

Mr. NEVILLE. No, sir.

Mr. HOWELL. What does it cost to carry a bale of cotton a year in New York, not counting interest? Just take the storage and in surance.

Mr. NEVILLE. Taking the storage and insurance without the in terest?

Mr. HOWELL. Yes.

Mr. NEVILLE. Of course the insurance would be regulated a good deal by the price.

Mr. HOWELL. What does it cost to carry a bale?

Mr. NEVILLE. The average cost per year in New York for insurance from 35 cents per $100 of value, which is the lowest insurance, up to the highest, the highest insurance being about $1.20 per $100 per annum. The storage is 15 cents a month.

Mr. MENDELBAUM. Twenty cents a month now.

Mr. NEVILLE. Twenty cents a month, then.

Mr. HOWELL. What is the chief advantage of a dealer in cotton, engaged in what has been called a subsidiary capacity, being a member of the New York Cotton Exchange?

Mr. NEVILLE. One very great advantage is that it enables him to keep in touch with any cotton information the world over, the supplies of cotton of different growths.

Mr. HOWELL. Is not that public?

Mr. NEVILLE. The public as a rule does not get that information until the next morning, because they are not on hand to get it when it is posted in the cotton exchange. Then another thing is the value of membership in the way of meeting members and discussing anything of interest. For instance, if a man says, "I hear the spinning trade in Germany is better," we know that quicker than anybody else.

Mr. HOWELL. You send that information out to your thousands of customers in your market letter, do you not?

Mr. NEVILLE. Yes, but it is old when it gets to them, even though we get it to them as soon as we can. When they get it it is old as far as we are concerned.

The CHAIRMAN. Are there any other phases of this question that you desire to touch upon?

Mr. NEVILLE. There is one other phase, Mr. Chairman, that I was hoping some of the gentlemen would ask me about.

I stated this morning that owing to the advantages of the cotton contract market, which is commonly known as trading in futures, a merchant is able to buy cotton freely from producers when they want to sell and at a time when manufacturers do not want to buy. I can best illustrate that, without wanting to appear personal to the committee, by stating that to-day we are carrying in South Carolina and in Texas thousands of bales of cotton that we have paid the farmers from 14½ cents to 15½ cents a pound for when there was not a mill man in this country or Europe who would bid over 13½ cents a pound for it.

The CHAIRMAN. What would you have paid for that cotton if there had been no future market?

Mr. NEVILLE. About 13 cents.

Mr. LEVER. That happened this year. Does that ordinarily happen?

Mr. NEVILLE. It happens every year, except in not as aggravated a fashion as this year—if I make myself clear.

Mr. LEVER. Entirely.

The CHAIRMAN. I think, then, what you have in mind will be directly in line with two or three questions I desire to ask you before you close your statement.

The underlying idea of the bill that we are considering seems to be that the speculative features of the New York Cotton Exchange

are injurious to the cotton trade and to the business of the country generally, and the bill's purpose, at least one of its purposes, is to put an end to these purely speculative features, prohibiting the transmission of telegraph or telephone messages relating to contracts for future delivery of grain, cotton, or other farm products without any intention that actual delivery shall be made.

Assuming that such law, if enacted, could be and would be enforced, is it your judgment that the interruption of interstate messages in relation to these future contracts would compel the New York Cotton Exchange to change its methods in any way, or would perhaps eliminate from that exchange the feature of future selling as it is now carried on?

Mr. Neville. Mr. Chairman, as a layman—I am not a lawyer—it seems to me that such legislation as you indicate or as you state you may enact or are discussing might be construed by some people who are investors as an infringement of their rights——

The Chairman. Let us waive that question. The theory of the bills is that if interstate messages to and from the New York Exchange be interdicted that future dealing feature of the exchange must fall to the ground. That assumes, I take it, that there are not enough transactions wholly within the State of New York to warrant the exchange in maintaining that feature of its business, that it depends on the business it gets from the outside. I thought perhaps your familiarity with the business of the exchange would enable you to advise the committee whether you believed that the continuance of this feature of the exchange is dependent upon the business that comes from outside the State of New York.

Mr. Neville. Mr. Scott, it seems to me the question which would most occupy the minds of the gentlemen is this: Whether what is sought to be enacted is going to restrict competition for the staples raised by the farmers, rather than looking after the morals of some one that should not speculate. That is the way it looks to me, in a broad way.

The Chairman. If you will pardon me, that is hardly an answer to my question. I was asking you to assume that the feature of future dealing on the New York Cotton Exchange is to be eliminated. Would the interdiction of interstate messages bring that result about?

Mr. Neville. I don't think so.

The Chairman. Then, let us make another assumption. Assuming that the feature of future dealing were eliminated, to what extent, in your judgment, would it make necessary the readjustment of the cotton trade? I take it for granted that cotton would continue to be grown, cotton merchants would continue to sell it, and cotton spinners would continue to spin it. In what way would you consider the elimination of the future market to be detrimental to either one of those three classes?

Mr. Neville. I think the farmer would be up against it, for this reason. My last statement, before you began examining me, will illustrate it. In the case of the cotton that I have stored in the South to-day, and for which I paid the farmer 14 cents to 15½ cents, if futures were eliminated I would not think of purchasing a bale of cotton unless I saw from 8 to 10 per cent profit in it. I would want just as much profit in handling raw cotton, more perhaps, in some seasons, as the wool dealer does to-day in handling raw wool. Why?

Cotton is a very expensive commodity to carry. As it is to-day, you have quotations to assist in fixing the value of cotton; but otherwise, in case of a fire, for instance, those quotations will be so irregular, owing to the variation in values, that insurance companies would have to increase their rates in order to adjust their end of it. Bankers, that we have to depend upon for money to move this crop in its active marketing season, would exact more margin. Instead of carrying cotton for me for 10 and 15 per cent, when they know I have it protected with futures, cotton at 15 cents a pound, spinners saying that cotton is worth only 13 cents—it is only lately they said it ought to be worth 13 cents—the banker will say, "Look here, I want 40 or 50 per cent margin on this cotton." That is your local banker. Take your buyer of foreign exchange. As I stated this morning, in round figures, two-thirds of your crop is exported. The percentage of cotton exported, that is, exported under what is known as the three-day sight draft, is infinitesimal. The bulk of the exports is made on the basis of a sixty-day bill, documents for acceptance, which means the banker on whom the draft is drawn for account of the mill that has bought the cotton, accepts it and agrees to pay within sixty days after date of acceptance.

If anything should happen to that bank or spinner before the expiration of the sixty days and he has taken the cotton on the guarantee, you are still liable for the face of that draft—the shipper and merchant are.

I only mention those things in the order in which they come.

The CHAIRMAN. Those things go to bring your mind to the conclusion that the farmer would have to take a smaller price than he receives now for a corresponding crop?

Mr. NEVILLE. Absolutely.

The CHAIRMAN. Will you discuss, then, the effect that would follow upon the merchant?

Mr. NEVILLE. The merchant, Mr. Chairman, and the farmer are so closely related that what affects one affects the other. The merchant dealing with the farmer is controlled absolutely by the outlet he has for the merchandise he has, the raw cotton he buys from the farmer.

The CHAIRMAN. Yes; but it has been very correctly stated here that the merchant, as a general proposition, cares nothing for the price; all he wants is his profit. I understood you to say that the elimination of the future market would compel the merchant to give himself a wider margin in his purchases and sales of cotton. That would not necessarily interfere with his business; he would handle as much cotton and make as much money?

Mr. NEVILLE. No. On the contrary, there are none of us who would have capital enough to handle as much cotton, nor with our capital could we borrow the money to handle it with. You can see that. Mr. Lever is a farmer and has 500 bales of cotton to sell to me as a merchant. He says, "I don't need the money, but I will sell you 250 bales and keep 250 bales." I buy 250 bales and the matter of price we agree on. My interests and his are identical, except under the present system I am able to hedge my 250 bales either by a sale to a spinner—I am a merchant and I buy it to sell, and he is a farmer and he raises it to sell; he elects to keep his, and if I sell mine at a price that is satisfactory to me, that gives me my commission.

Under the present method I am relieving myself of speculation and Mr. Lever is speculating on his.

Mr. LEVER. In that connection, that is an interesting statement. On the one hand when Mr. Neville is buying from me my 250 bales, Mr. Neville in the first instance is a buyer of cotton and I am a seller. Certainly it is not contrary to the economic laws that Mr. Neville in the first instance as a buyer will endeavor to get my cotton at as low a figure as possible.

Mr. NEVILLE. Yes, that is correct.

Mr. LEVER. The moment the contract is entered into and the cotton is delivered, he then becomes a possessor of cotton, and if any further contracts are to be made he becomes a seller of his cotton. Now, then, is it not also true that as a seller of cotton it is to your interest to get as good a price for that cotton as possible?

Mr. NEVILLE. Yes.

Mr. LEVER. So that in the first instance, as an intermediate man between the producer and the ultimate consumer of cotton, it is to your interest to get your cotton at as cheap a figure as possible, on the one hand, and to sell it on the other hand at as high a figure as possible. Is not that true?

Mr. NEVILLE. Mr. Lever, that argument would apply if the cotton business was like other merchandise business; but the cotton business is so bulky, as you know, and the amount of money invested to carry cotton is so large, the handling charges, the insurance, and the interest charges accumulate so fast, that the custom of the cotton merchant is to turn his cotton over as quickly as possible. I have turned it over and made 10 cents a bale on it just to keep it going.

Mr. LEVER. I don't think your position is different from that of any other merchant. For instance, a man that buys a bale of hay buys it as cheap as he can and sells it at as good a figure as possible.

Mr. NEVILLE. The trouble is, the commodity you have taken as a comparison is one, unfortunately, which has not so much competition in it as there is in the cotton business.

Mr. LEVER. Would that be the reason for the difference?

Mr. NEVILLE. There is nothing that fluctuates quite as much as hay.

The CHAIRMAN. Your answer, then, as to the effect of the elimination of the future market on the spinner would practically cover the same ground?

Mr. NEVILLE. Practically the same ground. I can see a great disorganization of business that can not help but be very hurtful to the producer on every side. The merchant can take some steps to protect himself, because if he does not like the price he is not compelled to buy it.

The CHAIRMAN. You think, then, the planters who are demanding the abolition of this future market, and the spinners who are joining with them, are simply mistaken in their judgment as to what the effect of such an abolition would result in?

Mr. NEVILLE. So far I have not heard of any spinners joining with the planters in wanting to abolish the future markets. Mr. Parsons' testimony was——

Mr. SIMS. But you ignored Mr. Parsons' testimony.

Mr. NEVILLE. I ignore it absolutely, as I said before, and perhaps under the conditions that I was laboring under I could not express

myself as forcibly as I would like to. I don't think any spinner who starts off and says he never uses a cotton exchange, with the gentlemen's pardon, knowns a damn thing what he is talking about.

The CHAIRMAN. Well, he must know whether he uses the exchange.

Mr. NEVILLE. Yes; and consequently the other matter he does not know about.

The CHAIRMAN. If he does not use the exchange it does not follow that, so far as his business is concerned, it is not nêcessary?

Mr. NEVILLE. It is not necessary directly to him, but it is necessary to the merchant from whom he buys his cotton. None of these spinners have their own buyers down South buying direct from the farmers. None of them have their own buyers, but they buy through merchants; and more than that, they come to you in the spring of the year and want to buy their cotton not only at a price, but they want to fix the difference on their specific quality as compared to middling.

The CHAIRMAN. That is very natural, I presume.

Mr. NEVILLE. Perfectly natural; yes, sir.

Mr. LEVER. A great many of these merchants from whom the spinners buy are not members of the New York Cotton Exchange, are they?

Mr. NEVILLE. Oh, lots of them are not members. But those men who are not members use the contract markets to protect themselves.

Mr. LEVER. They are governed altogether in their purchases by the New York Cotton Exchange quotations?

Mr. NEVILLE. I would say that has perhaps some influence, as I explained this morning, when you asked me if futures controlled spots or spots controlled futures, and I gave you that illustration regarding an imaginary transaction with our mutual friend Frost.

The CHAIRMAN. To sum it up in a single sentence, then, your justification of the future market is that it enables the whole cotton trade to be conducted upon a narrow margin of profit, first on the part of the merchant, and then on the part of the spinner, which would otherwise not be possible?

Mr. NEVILLE. Yes, sir.

Mr. LEVER. And upon a less capital?

Mr. NEVILLE. I will say this, Mr. Chairman. I don't want to take up too much time, but I would hate to be the public man, the man in public life, who was willing to father the enactment of a law of this kind.

The CHAIRMAN. We understand your position on that question.

Mr. NEVILLE. There is an old saying that a man is never a statesman until he is dead. I believe that whoever brought about the enactment of such a law as is proposed would be a dead one long before he was dead.

Mr. HOWELL. Do you not maintain that another benefit resulting from the cotton exchange is that thereby you are able to extend the market during the season of heavy delivery?

Mr. NEVILLE. Yes.

Mr. HAUGEN. As to the cost of handling cotton, and what would be the likely cost if the exchange were abolished, I wish you would point out what would be the initial expense of handling cotton, in the aggregate, say one or more bales of cotton, if the exchange were abolished.

I understood you to say there were advantages under the present methods.

Mr. NEVILLE. It is hard to estimate. I presume the question of storage would be not in excess of what it is to-day.

Mr. HAUGEN. Twenty cents a bale?

Mr. NEVILLE. Twenty cents a bale. The question of interest would naturally be dependent upon the price of cotton and the amount of money that you could borrow.

Mr. HAUGEN. Could you borrow it at 6 per cent?

Mr. NEVILLE. I think 6 per cent would be a fair basis.

Mr. HAUGEN. Eighty dollars a bale?

Mr. NEVILLE. Well, you could not carry so much, because your bank might exact 50 per cent margin.

Mr. HAUGEN. It does not matter whether the bank advanced it or the merchant advanced it.

Mr. NEVILLE. You could not carry as much cotton; consequently you could not distribute the——

Mr. HAUGEN. With the money invested in cotton——

Mr. NEVILLE. Oh, with the money invested in cotton?

Mr. HAUGEN. At 15 cents a pound, $80 a bale, that would be how much?

Mr. NEVILLE. At $80 a bale, it would be $4.80 per annum.

Mr. HAUGEN. $2.40 storage?

Mr. NEVILLE. And insurance. It would be hard to say what the insurance would be.

Mr. HAUGEN. From 35 cents to a dollar?

Mr. NEVILLE. Yes; $1.20 is the maximum, I believe.

Mr. HAUGEN. It would average how much?

Mr. NEVILLE. Well, that is a question.

Mr. HAUGEN. Probably 50 cents a bale on an average?

Mr. NEVILLE. Fifty cents for insurance?

Mr. HAUGEN. Yes.

Mr. NEVILLE. Sixty-seven cents per $100, I should say.

Mr. HAUGEN. The cost of handling a bale of cotton, then, would be $2.40 storage, interest $4.80, and insurance 50 cents; all told, $7.70. What is the cost under the present methods?

Mr. NEVILLE. The cost under the present methods? There would not be very much difference in that, except under the present method you as a rule move cotton very promptly; and I think under a change of conditions such as has been outlined it would very often make the necessity of holding a great deal of cotton.

The CHAIRMAN. Pardon me. When you say moving cotton promptly, do you refer to the actual cotton?

Mr. NEVILLE. Yes, sir.

The CHAIRMAN. Well, under present conditions the cotton can not be moved any more promptly than it is now?

Mr. NEVILLE. But under other conditions it can be moved more slowly than it is now.

The CHAIRMAN. I do not quite see how the elimination of a future market can interrupt in any way the flow of cotton from the plantation to the mill. The mills would keep running just the same, and the mills would have to have cotton just the same.

Mr. NEVILLE. Let me use the same illustration of the friend of mine in South Carolina that sold those goods to China. With the abolition

of the exchanges he could not have found a buyer for that cotton and consequently could not have made the sale.

The CHAIRMAN. Do you not suppose there were enough merchants in the country who would have been willing to have made that sort of a sale to him?

Mr. NEVILLE. I don't think so, because the price they would have had to ask that spinner to be on the safe side of things would have been so high he could not have afforded to manufacture the goods at that price—could not have made the sale at the prices he would have had to pay for the cotton. You must realize, gentlemen, that you are engaging in considering a subject that has been the result—well, it is an evolution. The question was asked the other day of some witness, and I stated I would answer it.

Mr. BROOKS. Would it have kept those people in China from wanting those goods? What would they have done?

Mr. NEVILLE. I guess they would have gone around in their birthday clothes.

Mr. BROOKS. You think people would quit consuming?

Mr. NEVILLE. I don't say I think people would quit consuming, and I don't think my remark is capable of that construction.

Mr. BROOKS. Do you think it would curtail consumption?

Mr. NEVILLE. I think it would curtail consumption, yes, until such time as they could get their goods. But remember, we are not the only people manufacturing cotton. Remember there is England and France and Germany.

Mr. BROOKS. And you think the people in China could get their cotton from England, for instance?

Mr. NEVILLE. Yes; they would get it at a time and place that would suit them, and when we wanted to sell we could not.

Mr. HAUGEN. If it had not been possible for this spinner who contracts for this cloth in China to hedge, he would have had to have either the cash or credit to purchase the cotton and carry it.

Mr. NEVILLE. Right there, sir——

Mr. HAUGEN. Or get somebody to carry it for him?

Mr. NEVILLE. Yes.

Mr. HAUGEN. And by hedging it was not necessary?

Mr. NEVILLE. No.

Mr. MARSH. I do not like to ask the committee to listen to me again, but as I have given a good deal of thought to the economic side of this matter, I think I can elucidate the problem which the chairman is seeking light upon, perhaps, a little more clearly than Mr. Neville, who, I think, has not considered the ultimate implications in this matter to the extent that I have. Will the chairman permit me?

The CHAIRMAN. Certainly.

Mr. MARSH. As I understand it, the chairman is anxious to find out why the margin between the price paid to the producer and the price which the manufacturer pays would have to be widened out. Is that it?

The CHAIRMAN. That is not quite what I was seeking light upon, Mr. Marsh. Up to this time what has been said on this point has rather led my mind to the conclusion that the principal advantage to the whole future market is as a protection to the people engaged in the cotton business, and I have sought to get information as to the extent to which they would be damaged if that protection were with-

drawn, and possibly also a word of enlightenment as to why the cotton trade should be protected.

Mr. MARSH. May I answer that question?

The CHAIRMAN. Yes.

Mr. MARSH. On the 1st of January, this year, cotton merchants of the world were carrying approximately 4,000,000 bales of American cotton, besides a large quantity of Indian cotton and Egyptian cotton. The value of that cotton was approximately $300,000,000. That cotton was, of course, all hedged. There came a decline of approximately 20 per cent in the value of that cotton. Now, if those merchants had been carrying that cotton without any hedge the shrinkage in their capital would have been 20 per cent of $300,000,000, or approximately $60,000,000. That $60,000,000 would not have been lost out of the world, but so far as those cotton merchants were concerned that group of men carrying that $300,000,000 of cotton, that $60,000,000 would have been dissipated, it would have gone off, distributed all over the world.

The possibility of having capital constantly cut in a way which to them is a total loss, even though the cotton has not been destroyed—to that group of men it is a total loss, the money is gone, the capital is gone—and the possibility of having that impairment of their capital would make it necessary for cotton merchants carrying this supply of cotton in the world to attempt in the years when their forecasts were successful to get enough out of their business to keep their capital unimpaired through the years when they misjudged and when there came terrific losses.

That is the real economic reason why the margin between the producer's price and the consumer's price would necessarily widen out if you did not have this method of hedge protection.

There would come every two or three years a season when the merchants carrying the load they had bought and were in the process of distributing would catch one of these terrific impairments of their capital. That is constantly happening in the wool business to-day. In order that they may go on they would take what the wool men in Boston say they have to take, a five-year look at it, knowing that in two out of five years they were going to lose tremendously, but those losses, which as far as they are concerned is capital gone, dissipated, they must make up out of a larger margin of profit in the successful years.

The CHAIRMAN. I understood you to say the other day it was just as important economically to the wool trade to be protected as it is to the cotton trade; that the only reason in your judgment why the wool trade is not properly protected is because the product is one which does not lend itself to that sort of manipulation?

Mr. MENDELBAUM. Mr. Chairman, I do not believe that even Mr. Marsh has brought out the point that you were inquiring about quite as plainly as it may be brought out, and if you will permit me I think I can bring it out by putting a question to Neville.

The CHAIRMAN. Very well, we will listen to your question.

Mr. MENDELBAUM. You have stated the case that a spinner came to you to buy ten or fifteen or twenty thousand bales of cotton—the amount is immaterial—because he could make a trade with China to send the goods there, and Mr. Brooks has asked you if you

had not sold him the cotton that would have curtailed the consumption of cotton goods. Now, that is not exactly the question that I want to put to you, and I will ask you to fix your mind on this question that I will propound. That spinner could not make the trade through you because you could not use the cotton exchange?

Mr. NEVILLE. Yes.

Mr. MENDELBAUM. Now, supposing for one moment that the cotton exchange would not be in existence, that spinner could not have bought that cotton from you and therefore could not have sold to China those goods.

Mr. NEVILLE. I stated that.

Mr. MENDELBAUM. Would it not have been natural for him, for that man in that deal in China, to go to England, where he could have used the cotton exchange, notwithstanding it would be abolished here, and thereby would not that make this country the loser, those goods being manufactured in England, and which in the event of a cotton exchange in this country could have been manufactured in this country?

Mr. NEVILLE. I think I practically stated that. That is the fact.

The CHAIRMAN. Have you any further statement to make?

Mr. NEVILLE. Yes, sir. Mr. Lever, in the first day's hearing, if I recall his remarks correctly, stated that a law had been introduced in the British Parliament to abolish the Liverpool Cotton Association. That struck me as being very unusual, a very unusual proceeding in the face of what I knew about the English Government, and I had an inquiry made of the secretary of the Liverpool Cotton Association, and I wish to submit this cablegram which has been forwarded from Liverpool, via New York, dated February 12 [reading]:

George W. Neville, Hotel Cochran, if not at hotel deliver to Committee on Agriculture, care of Chairman Scott, Washington, D. C.:

There has been no actual legislation against futures before Parliament, but questions have occasionally been asked.

Mr. LEVER. So that the record may be entirely straight, I suggested, I think—my intention was to suggest at least—that a bill had been introduced in Parliament and was pending on this subject. I think you showed me a copy of the bill, Mr. Chairman.

The CHAIRMAN. I have in my office a copy of a bill which I was informed was introduced by William Field, an Irish member of the British Parliament. The purpose of this bill was to abolish future trading on any exchange in England. I have a printed copy of the bill. Perhaps I could not say definitely that it had been introduced. I had some correspondence with Mr. Field, who wanted some copies of the bills introduced here, and he inclosed this as one he had introduced.

Mr. SIMS. This cablegram does not contradict anything of that kind.

Mr. LEVER. I am not certain that the bill has been introduced.

The CHAIRMAN. Have you any further statement?

Mr. NEVILLE. Yes, sir. A question was asked regarding the fluctuation in price before cotton exchanges were established and after cotton exchanges were established. I quote from page 303 of the Commissioner of Corporations. Table 37 gives an average fluctuation from 1828 to 1860 of 32 per cent. From 1877 to 1909 the average is

24.1 per cent, showing a difference of about 25 per cent less since exchanges were inaugurated than before.

The CHAIRMAN. That excludes the period of the war?

Mr. NEVILLE. Yes; that excludes the period of the war.

Speaking on that subject, Mr. Chairman, I came across several years ago, long before this investigation was ever thought of, an old newspaper print for the season of 1836–37, and I brought it down to show you gentlemen just as a matter of curiosity.

I have finished, gentlemen.

Mr. HUGHES. I would like to ask one question, and it is this. I understood Mr. Marsh to say the other day that an order given, say in Georgia, for 100 bales of cotton on the New York Cotton Exchange, that there were no fixed charges to accompany that order. I don't know whether I understood him or not, but I so understood him that there were no fixed charges to accompany that order.

Mr. LEVER. No fixed margins.

Mr. HUGHES. "Margins" is the word I intended to use. Now, I know a gentleman who bought some 200 bales of cotton and he was required to accompany that order with $200, and of course as the cotton went down he had to put up money again. As I understand it, in Georgia we always accompany the order with $1 per bale. I want to know whether that is the usual margin or not.

Mr. NEVILLE. I can hardly answer that question. I would say that very often the personality of the man who sends the order would have a good deal to do with it.

Mr. SIMS. The margin is only to protect the exchange member who institutes the order.

Mr. NEVILLE. Yes, sir.

Mr. HUGHES. I understand it to be a dollar bill in Georgia.

Mr. NEVILLE. I can not answer surely about that.

Mr. BEALL. You refer to the fluctuations up to 1860? Then the fluctuations since the establishment of the cotton exchange?

Mr. NEVILLE. Yes, sir.

Mr. BEALL. At the figures you gave, I did not understand them very well. I will ask you if this is not true, that during recent years there has been an increase in fluctuations? I will read here:

> On the other hand, a more significant and surprising fact is that, taking the latter period by itself, there has been a pronounced increase in fluctuations. Thus, during the ten years ended 1890 there were no fluctuations of as much as 20 per cent; in the next ten years there was one, and in the nine years ended with August, 1909, there were four, three of which, as just stated, were in the "Sully year." Of fluctuations of as much as 10 per cent of the mean monthly price (but less than 20 per cent), there were only five for the ten years ended in 1890. In the next ten years there were 18, while in the nine years ended August, 1909, there were 28. Of the 56 monthly fluctuations of 10 per cent or more, but less than 20 per cent, which occurred during the thirty-three years from 1877 to 1909, 31, or substantially more than one-half, occurred in the ten years ended 1909.

Mr. NEVILLE. I have no reason to doubt it. The only thing I have to say about it is there must have been some extraneous circumstances that caused those fluctuations in the matter of supply and demand, and such as that.

(Thereupon, at 4.50 p. m., the committee adjourned until to-morrow, Thursday, February 17, 1910, at 10.30 a. m.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Thursday, February 17, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott (chairman) presiding.

The CHAIRMAN. Before this hearing begins, let me make this request: We are very anxious to conclude the hearing, so far as it relates to the gentlemen from the New York Cotton Exchange, at this morning's session, and in order that they may present their statements, I will ask the members of the committee and others to refrain from questioning them until both Mr. Hubbard and Mr. Mandelbaum have concluded what they desire to say. If gentlemen will make note of the questions which occur to them as these statements are made, opportunity will no doubt be given, after the statements are made, to ask them; but in order to make it sure that these gentlemen who have come from New York and have been here for a week should be permitted to say what they desire to say, I make this request.

TESTIMONY OF MR. SAMUEL T. HUBBARD, OF NEW YORK CITY.

(The witness was sworn by the chairman.)

The CHAIRMAN. Will you not state whom you represent and what your connections are?

Mr. HUBBARD. I am a member of the revision committee of the cotton exchange; member of the Marsh committee that has this matter in charge; a cotton commission merchant; a cotton merchant on my own account. Mr. Chairman, there seems to be only a few points which have not been touched upon.

The CHAIRMAN. Pardon me just one moment; are you president of the New York Cotton Exchange?

Mr. HUBBARD. No, sir; not at all. I was president in 1901 and 1902.

The CHAIRMAN. Your only official connection now is as a member of the revision committee?

Mr. HUBBARD. That is all, sir.

The CHAIRMAN. Excuse my interruption.

Mr. HUBBARD. Organized in 1870 and incorporated in 1871 by a number of clear-minded, able southern men, united with the merchants then engaged in the cotton business in New York, the founders of the cotton exchange left behind them one maxim which has been followed by the exchange for the past forty years of its existence, and which has been carried down as a tradition to be lived up to, namely, that the rules which govern the transactions of its members should not be regulated by precedent, but that they should always seek to lead in all of the questions which arise in the cotton world. In fact, it is their duty, as they look at it, to be pioneers, to bring forth new methods, to bring forth new ideas for discussion and final adoption by the trade of the world.

When I entered the cotton trade in the spring of 1871, my employers were active in shipping cotton on a ship, either in Charleston or in Mobile, sending the samples of that cotton to New York, and that cotton was sold and resold until the time arrived for the sailing of the ship upon which it was to put to reach the port of Liverpool. Then

the final holder of the cotton in New York placed the samples on a steamer, drew his bills of exchange, and the cotton documents were finally to be taken up in Liverpool, or, as in those days, Cork, Ireland, for orders when the cotton arrived on the other side. While that cotton was afloat it was sold and resold in the port of New York a number of times, probably two, three, five, or a dozen times, and the title to that cotton afloat was transferred by means of these bills of lading until it, as I have stated, reached the man who took possession of the cotton in Europe. That is, in effect, the beginning of the future transactions in the port of New York. It is similar to the transactions now made there for forward future delivery, only different in the fact that the cotton instead of being afloat in the hold of a ship, is now in the warehouses, either in New York or in other ports of the world. The transfer of title is made in a similar manner, by the transfer of the warehouse receipt instead of the transfer of the bill of lading.

As this system developed it was found to be very advantageous for the shippers of cotton to New York to be able to sell their cotton for forward delivery, to be able to deliver it within a specified time, and that the privilege of the time of delivery should fall upon the shipper. Whether cotton is brought from a farm in a wagon or whether it is brought from a town or port in a steamship and a railroad, the exigencies of transportation, the dangers of a breakdown, have placed upon the seller the duty of delivering the cotton to the buyer, and as a concession to the seller the buyer has given him the option of delivering to him at any time during a certain specified period the cotton which the contract calls for. In other words, the giving of the seller's option in a contract for future delivery arose, and has continued, from the difficulty of the seller delivering that cotton and the buyer accepting it, by having a leeway of thirty days, or in Europe of sixty days. The difficulty in Europe, of course, was involved in the danger of transportation being interrupted by storms, therefore they traded there in coupled months, instead of trading as in America in single months.

Now, Mr. Chairman, that practice has continued through a long period of evolution. The steamship has done away with the sailing vessel, the cotton has been sold for forward delivery without the transfer of title until the final man has taken possession of it, but the contract for the delivery has been made legally binding, as if the delivery had actually been completed. The evolution of these rules and regulations has not been accomplished without stress, without disputes, without difference of opinion, without personal antagonisms, which at times have lasted for years, amongst this body of free competing merchants. Their changes have all called for a vote of two-thirds of the members, and among those two-thirds there have been practically as many differences of opinion as there has in any congregation of men engaged in competition for a livelihood.

We found finally it was not necessary to weigh a bale of cotton every time we transferred the ownership; we found it was not necessary to sample a bale of cotton every time we transferred the ownership; we found it was not necessary to turn that cotton out of the store every time we transferred the ownership; we found that was a constant loss to the owner of the cotton and a constant source of disputes and differences between the different owners as it passed from hand to hand. So we finally evolved the system of transferring it

by means of a warehouse receipt. Then we went a little further and said, "If we can transfer cotton by a warehouse receipt, why can't we decide that when a bale of cotton is once good middling that it is always good middling?" The quality of cotton does not change. Cotton held forty years is just exactly the same in grade as it was when it was raised. Therefore we decided upon doing away with arbitration between members on the deliveries, and that we would establish a court who would have absolutely no interest in cotton whatever, whose members should be paid a sufficient salary that they might be independent of any transactions in the cotton market. That court is still in existence. We pay its members from $3,000 to $3,500 a year. That court was instituted twenty-one years ago, and it is now the final court of appeal for the settlement of all disputes between the brokers in the South and the manufacturers in the North, and between the members of the New York Cotton Exchange, and it can be used by anyone in this country or in Europe who wishes to submit to its decision as to the grade of cotton submitted to it. The cost is a trifle, something like 10 cents a bale on the part of each man submitting the cotton for decision. That process of determining the grade of the cotton has never been adopted in any one of the other cotton markets of the world, and the reason I will proceed later to tell you.

Then, Mr. Chairman, we came to the conclusion that if this court could decide upon the grade, some method must be adopted to do away with the method of squabbling and fighting over the differences between the grades every day or every week. We finally decided that it should be done every month, and in all those years there was a contest for the majority vote of this committee which had the regulation of the differences between the grades. Finally we reached this point under which we are now operating, of having two revisions a year. The other markets of the world say, "That is a very foolish arrangement. As long as we can take our chance of determining what the vantage over the seller, because the seller does not know the exact value of that cotton, and if anything occurs while that cotton is in value of a bale of cotton is when it comes to market, we have an ad- transit to us from him it must occur in such a manner as to decrease the value of that cotton." We can not improve the grade of cotton that is grown by the elements, but the elements can destroy the value of a grade of cotton while it is in growing, and by so destroying the value of the grade of cotton in the field it can affect the value of all the cotton in transit or in the possession of the merchants of the country; that is, it can affect the value now called by the department "the commercial value." That is a system which is as old as the hills. It comes back to the old idea that the buyer must take care of himself. Therefore he proceeds to take care of himself, very naturally, at the expense of the seller. It seems to me that that is a principle of human nature which it would be difficult to controvert.

The Liverpool market, which for a century has pursued this course, and the New Orleans market for a corresponding length of time, are buyers' markets in their origin and have remained so to the present time. A buyers' market naturally adopts rules and regulations to favor the buyer. The United States, and especially the South, are sellers; they are not buyers. As I have sat here, Mr. Chairman, and listened to this discussion, it has sometimes occurred to me that,

instead of being before a committee on agriculture I was before a committee of manufacturers. I have heard a lot about the buyer and I have heard a lot about the spinner, but I have heard very little about the seller and the producer. The producer is the man who wants to obtain, and should obtain, the greatest value possible out of the products which he raises. Now, then, if we can establish a valuation of cotton based upon the scientific value of cotton, we have accomplished something which is entirely new; we have established something which is of the greatest benefit to this country, and which is of the greatest benefit, of course, to that section of this country which produces the cotton crop—that is, the South.

Liverpool has asked us to adopt a standard of classification; that is, to adopt a standard of middling and good middling and low middling, and we respond to Liverpool by saying, "We will adopt a standard provided you will class every bale of cotton that goes to Liverpool that is submitted for arbitration, by that box; that a bale of good middling is a bale of good middling by that box, and the value of that bale of good middling is good middling; it is not the value that two or three men, arbitrators of the Liverpool market, may place upon that good middling when it reaches Liverpool." In other words, our efforts are devoted to this principle: We believe that the difference between the grades should be settled on the day of the sale and not on the day of the delivery. We find the planter now coming to sell his cotton forward, or in March, for delivery next October, insists with his commission man that he shall receive from him, from the planter, the grades of cotton at a fixed difference; that is, he says, "I want to sell you 300 bales of cotton for next October delivery, and I will deliver you that cotton in October, that good middling a quarter of a centon, and low middling a half a cent off." He comes to an arrangement as to that point. Therefore he fixes the difference. He knows what he is actually going to receive. He is going to deliver that cotton in October, six months, nine months, before the cotton is planted. We find the consumer doing the same thing. We find him coming to us and saying, "I will buy fróm you a thousand bales of strict middling cotton at a quarter of a cent on, and I will fix the price of the cotton itself whenever I wish." In other words, he buys his fixed difference. Now, then, if it is a good thing for the planter to do that and it is a good thing for the consumer to do that, why is it not a good thing for the merchant to do it?

We believe that we are propounding a theory for the benefit of the producer, for the benefit of the country, and for our own benefit, in giving stability to the value of the cotton in which we deal, and we are utterly dumbfounded to see the Government of the United States bring forward a proposition to commit the valuation of this cotton of which we ship 60 or 70 per cent to Europe, to the people on the other side, in order that we may do business under a precedent and not do business under new methods which come up from day to day. The ordinary business life of an exporter of cotton in the United States does not exceed five years. It may exceed three years. You can look all over the South and you can count on the fingers of your two hands the number of men who have been in the export business exclusively in cotton for five years, and the reason is what I have been able to show you. He ships the cotton to the other side. The value of that cotton is determined not on the day he sells it, which may be

in September or October, but on the day that it reaches Liverpool, which may be January or February. While that cotton is afloat, Mr. Chairman, a storm sweeps over the South, the grade of the cotton is injured, a frost may come, and it is made tinged. That cotton reaches Liverpool, some portion of it does not come up exactly to the standard which he sold, and the value of that cotton, the reclamation on it, is determined, not on the value of the cotton on the day on which he sold it in the United States, but on the day on which it was delivered in Liverpool, Bremen, or Havre, and he has had all the contingencies of the weather against him and none in his favor; he can not have any in his favor. You say, "Well, men do this business. Why do they go into it? Why does it continue?" Why? The answer is very simple. I went into that business myself. The fascination to a young man to draw a bill of exchange on Rothschilds, or the North German Deutscher Bank of Berlin, or Barring Brothers, of London, and to feel that somehow he is in partnership with those firms, because he has that privilege, is very strong. Another reason is the fact that he always feels that he knows a little more than his father, and that is a very excellent thought, because if it were not so the world would not move. But after having been engaged in that business long enough to have lost a considerable sum of money, I quit it, and it took me five years to find out why I lost the money, but I found out, as other people have found out. So that now the American export houses who live do so by maintaining a house in Europe.

It is a remarkable feature, gentlemen, that if any of you travel on the seas you never see the flag of the United States on a merchantman; you never see it in the ports of Europe. We transfer all our cotton and all our wheat and all our products of every description, and send them to Europe on somebody else's ships. Did you ever stop to think that a foreign ship is the only article in the world that a citizen of the United States is prohibited by law from buying or selling? You can trade in anything else, but when it comes to buying a ship, you can not trade in it. If you prohibit a man trading in cotton for future delivery in the United States it is needless to say that that method of trading will continue in other portions of the world. The world does not go backward; it moves forward.

Having established this court of arbitration in New York, and having established this method of fixing the differences, what do we find? We find the cotton exchange of New York, instead of becoming and remaining a local institution, has become an institution in which men engaged in the cotton trade for their own benefit, for their own advantage, for their own prestige, seek to join. We find members of the cotton exchange in Boston, Philadelphia, Baltimore, in the historic city of Richmond, and its port, Norfolk; we find them in Charlotte, Greensboro, South Carolina, that wonderful country which seems as though it were touched by an Aladdin's lamp in my memory; we find them in Augusta and Savannah, and even back in Alabama a membership has recently been taken out by a spinning friend of mine of many years standing; in Birmingham, in Mississippi, in New Orleans, in Texas, in Memphis, and in St. Louis. All those men have a vote in making the rules of the exchange, and we ask them to come and serve on our revision committee, something that is not known in any other exchange in the world.

Then we find that when you land in Liverpool and feel a little lonely in that dust and dirt of the city; when you land in Havre and look around those beautiful streets, or at those beautiful skies; when you land in Bremen, that wonderful city of German enterprise; whether you are in Moscow, listening to the bells of Kremlin, looking down the snowclad streets; or whether you are in Alexandria, under the shadow of Cleopatra's Needle, looking for the remains of the library of Alexander; or whether you are on the top of the Cathedral of Milan, that beautiful marble treasure, and looking out on the streams of the Alps, and noting that they are harnessed with electric power and have been for the past fifteen years for the purpose of consuming American cotton; or whether you are in Barcelona, the home of the cotton-spinning industry of Europe—and you feel at all lonely, all you have to do is to turn on your heel and walk into the office of a member of the New York Cotton Exchange. This is an institution which is not confined to one city or one State or one country. You find these gentlemen everywhere. The reason they join this exchange is because of the fairness of the methods which we have adopted. If they were not fair, if the members were not satisfied, they would go and do their business elsewhere, and that is the reason why our business has grown as it has in the past, and, as I believe, it will continue to grow in the future.

As I have said, we keep our cotton in the warehouses in New York, that portion of it which comes to New York, but we do more than that. After we have put the cotton in the warehouse and locked the doors, we put a notice on the outside of the warehouse that "In this warehouse are 165,000 bales of cotton," of which so many bales are good middlings, and so many middlings, and so many low middlings, and so many strict good ordinary, and if you want to buy that cotton you know you are going to get the cotton which it is to the advantage of the seller to deliver to you. The buyer is put on notice. Is that done in any other trade except the cotton trade; in any trade, in any business, does any man tell you what he has got for sale before you enter his store to buy it?

I have heard since I have sat here this question of arbitration amongst the spinners. We established this court, gentlemen. There is a little verse somewhere in the Scriptures, I think it is in Matthew, which says:

Settle with thine adversary quickly, lest he hail thee before the just judge and the judge cast thee in to prison.

These disputes have arisen and have first been settled by arbitration, and have finally come to be settled by the classification committee of the New York Cotton Exchange, the last court of appeal, and in order to meet this increasing disposition to submit to the decision of that classification committee, which has classed the cotton in the port of New York for the last twenty-one years, we have been obliged within the past year, to accommodate the demands from spinners and from merchants in the cities, to enlarge our quarters.

I will close what I have to say with just this statement: If the decision of that classification committee was not satisfactory, it would not grow, but in order to show you that it is satisfactory, I should like to read from this little document. [Reading]:

(c) If this can not be done, the mill shall select one arbitrator and the shipper select also one (these arbitrators being other than official representatives) between whom the

dispute has arisen, to whom the whole question shall be submitted by both parties to dispute either verbally or in writing, and in the event these two can not agree, they are to select a third party to act as umpire, whose judgment shall be final. If an umpire can not be agreed upon, then the matter in dispute is to be submitted for the ruling of the New York Cotton Exchange, but this is to be as a last resort.

(*d*) If the dispute be as to grade, the samples drawn by the mill shall be submitted, unless the seller claims the right to have new samples drawn, in which event samples of cotton shall be drawn by either party with the consent of the other, or by a third party in the presence of both parties. Provided, however, that in cases where it may be impracticable to have samples subsequently drawn, the cotton not so sampled shall be assumed to be of the grade invoiced.

(*e*) In any arbitration, or where any question is submitted to the ruling of New York Cotton Exchange, the party against whom the decision is rendered shall be liable for the expense of arbitration or submission.

(*f*) These rules shall apply as to staple cotton, except in matters of length of staple, grade and differences, consequent thereon, which shall be arbitrated in New Orleans or Vicksburg, under the rules of the New Orleans or Vicksburg exchange, at the option of the buyer.

9. Country damaged cotton will not be received unless put in condition by shipper.

10. In absence of other agreement, differences ruling on New York Cotton Exchange at date of sale are to be used in settling claims under all contracts, except that one-eighth differences are to apply on one-half grades from strict good middling white to strict low middling white, both inclusive, and in the absence of specific rules herein governing any dispute arising between parties, the ruling of the New York Cotton Exchange is to govern.

These are the rules of the Carolina mills. Here is the contract of the Carolina mills, sale memorandum and contract governing these rules, and also the names of all the gentlemen who participated in this discussion.

(The contract referred to will be found in the appendix.)

The CHAIRMAN. You have concluded your statement?

Mr. HUBBARD. Yes, sir.

The CHAIRMAN. We will now hear from Mr. Mandelbaum.

TESTIMONY OF L. MANDELBAUM, OF NEW YORK CITY.

(The witness was sworn by the chairman.)

The CHAIRMAN. Please state your business and other connections in relation to the cotton trade.

Mr. MANDELBAUM. I am a cotton broker. My official connection with the exchange is, I am a member of the board of managers; I am a member of the committee on by-laws and rules, chairman of the committee on statistics and information, member of the supervisory committee, to whom all complaints against members have to be directed, and also a member of the revision committee. I am also a member of the so-called Marsh committee.

Gentlemen, I will be as brief as I can possibly be, and after what my colleagues have said there will be very little for me to say, except that I have been trying to determine for myself the real object of the propounders of those different bills which are the subject of consideration before your committee. I have sometimes thought that it was a matter of trade, that it was a question as to the benefit or loss occurring to the growers of cotton or other produce. Sometimes I have thought that the question was one of morals. Also it must be frankly admitted that the preponderance, the great preponderance, of the testimony brought in here was solely on the subject of the price and the prices of cotton, and the moral questions which seemed to pervade those bills have mostly been lost sight of. I have tried to fathom the reasons. There must be a reason for everything, and I

have tried as much as possible for myself to get at the reason for it, in studying these different bills, which are somewhat different in their character, particularly the so-called Burleson bill, which seems to consider the question only from a moral standpoint when the selling of cotton is concerned. According to that bill it does not make any difference how much a man buys as long as he does not sell any—I have come to the conclusion that there is no moral in that bill. [Laughter.] The so-called Scott bill, brought in by the chairman of this committee, is at least consistent. It treats the seller and the buyer equally on this question.

But no matter what those bills purport to be or what was in the minds of the proponents of the bills, it seems to me that they all reach the fact that Congress does not claim the power of direct interference or prohibition, because, if it claimed the right, it would have no reason to fall back on the mail or the telegraph, but simply would bring a law in of interference or prohibition. Now, I may be all wrong—I am not a lawyer, gentlemen—but in order to justify Congress in prohibiting or interfering with the business of the exchange, they have to show that the business on the exchange is somewhat of not quite a moral character; otherwise I do not see that they would claim they have the right, on broad grounds, to interfere with and prohibit that business by prohibiting it the mail and the use of the telegraph.

Right there I meet another perplexing question, Mr. Chairman, and that is, if it is done for that high moral purpose, why was the coffee exchange exempted from its provisions? Why was the exchange excepted that deals in cotton oil futures, and why was the very stock exchange exempted from its provisions? It shows to me clearly that the moral question was not exactly the question either, and for that very reason it has been impossible for me to clearly make up my mind what these bills really stand for.

Let us look at the next question. There has lately been a great deal of talk about a white slave trade. I do not believe that any member of Congress would claim that Congress had the right to prescribe, based on the fact that white slaves are transported by means of railroads, that every man traveling with a woman should have to make an affidavit that he does not travel with her for the purpose of the white slave trade. Hotels are sometimes used for not exactly moral purposes, but would that give Congress the right to prescribe that any man entering with a woman to get lodging at night should make an affidavit that he is not bringing her there for immoral purposes? I do not think they would hold for one moment that such a thing would be the case or would be tolerated. Gentlemen, on the cotton exchange a contract is exactly of a similar nature. It is a strictly legal contract. It is a contract which has stood the fire of the Supreme Court. It is a contract which has stood the fire to be enforced in the South, notwithstanding all the laws that they have been able to get up against it, and it is a strictly legal business, notwithstanding the fact that it might be used sometimes for an illegal purpose. That does not make it illegal, and that, in my opinion, should not justify Congress in prohibiting it the mail and the telegraph.

Now, let us come to what an abolition of the exchanges would bring about, if such a thing were possible. I can very readily under-

stand in one way why the spinners would like very much to have the exchanges eliminated, and I will tell you right here why they would not have to any more, after that matter that came out accidentally yesterday to which I will refer briefly afterward—because they would be the only buyers; no one could actually handle cotton any more except a spinner. I admit that, and I make the frank admission. To what would that lead? I will tell you, gentlemen, that you have now already the so-called cotton duck trust. You will be astonished if I tell you that within the last five years three attempts have been made to combine all the Southern cotton mills. It might surprise you if I tell you that to-day the very thing is going on which would leave, if successful, the producer entirely at the mercy of the spinner.

It has been asserted here that the law of demand and supply is made nugatory on the exchanges. There never was a greater fallacy propounded by the people who mention this fact. I do not want to detain you too much on it, but the fact is that from 1890—I haven't the statement any further back with me—beginning with 1890 every big cotton crop sold at a low price and every small cotton crop sold at a high price, which answers that assertion, and I dismiss it simply by stating the plain fact.

We have been charged, gentlemen, with almost everything under the sun, unfair dealing, and everything they could think of. Now you gentlemen, the majority being lawyers, are certainly also business men in the sense in which I take the law, and you certainly know that business generally deals with those houses, or with those corporations, where it is treated the fairest. Business does not go out of the way to deal with houses where it is treated unfairly. It always seeks to trade where it receives fair and just treatment. To-day, gentlemen, the cotton exchange of New York is the largest exchange in the world. It does more business to-day than New Orleans and Liverpool put together, and why? Because it is the only exchange where people know what they do; they know what they buy and they know what they get, and that is the reason they seek that market.

Another thing in the abolishment of the exchange, if such a thing could be brought about, which was incidentally brought out—which I frankly admit, Mr. Chairman, I never knew; it never came to my mind, I know it never came to the minds of any of the gentlemen of the committee, and I know it never came to the minds of any of the spinners—the fact which was brought out by Mr. Neville quite accidentally when he stated that a mill man came to him to buy 25,000 bales of cotton to cover a contract of goods which was to be delivered nearly a year hence; that he sold him that cotton; that he went on the exchange and hedged it. How would it stand if there was no exchange, if Mr. Neville could not have hedged himself and could not have sold to the spinners that cotton, and the spinners could not have made a contract with the Chinaman, or that Chinese exporter? What would have been the consequence? That man, that exporter, would have gone to Manchester, to Lancashire. He would have bought his goods there. That mill man in Lancashire or Manchester would have gone to the Liverpool exchange and contracted for his cotton for future delivery, or hedged, and that would have enabled him to take the business away from this country, to take it away from the labor-

ing man in this country, and injure this country in a political and economic sense. While I admit, and I had it brought out yesterday, that might not lead to the consumption of one pound of cotton less, because, so far as cotton is concerned, it would not make any difference whether it is consumed in England or consumed in this country, it would deprive the American factories of making it, and it would deprive the laboring men here from earning what they are justly entitled to.

The question of hedging has been touched on by my friend Mr. Burleson in a way which either shows that he does not understand the question or that he does not want to understand it; it is either one or the other. Gentlemen, cotton is hedged not for the purpose of an absolute insurance, not for the purpose of avoiding an absolute risk; cotton is hedged for the purpose of limiting that risk. There may be small variations, and if you could hedge those variations there would not be any longer any market; there would not be any necessity for any market.

In looking further over those bills I see there is a clause in them even as to the foreign business; in other words, the Congress seeks to prescribe, or tries to prescribe, a man sending an order from Liverpool or Bremen to make an affidavit over there what his intention is. Do you think Congress has that right, to fix a restriction as far as Europe is concerned? We have sometimes imposed on the Chinaman and the Turk, but we have never tried it on the Europeans, and I do not believe for one moment they would tolerate it. [Laughter.]

Now, gentlemen, the title of the New York Cotton Exchange is, to my mind, a great misnomer. It is simply derived from the fact that the New York Cotton Exchange is situated in New York. It does not mean that it gets its business from New York. The membership of the New York Cotton Exchange is distributed all over the South and all over the civilized world, and it is a world's exchange and the only world's exchange in this country. I say that without any fear of contradiction, no matter from what quarter it may come.

Much has been said on the question of wool, why it was that there is no necessity that wool should be traded on an exchange. Gentlemen, this is so simple that anybody who is familiar with the matter would laugh at it. It may astonish my friend over here [Mr. Burleson], who is just smiling at me when I mention the matter, to know that I was a wool raiser in Texas almost before he was born [laughter]; that I dealt in wools in San Antonio, Tex., almost before he was born; that I claim to be absolutely familiar with wool. Let me show you only one instance which affects the price of wool. You can either sell or you can not sell it. I have had to hold wool for a year and longer to be able to sell it. The difference between a manufacturer coming to you and wanting to buy wool and you going to the manufacturer and wanting to sell wool amounts to 2 or 3 cents a pound. I will refer to some of the reasons why it is not traded on an exchange. You take, for instance, the Texas wools, the New Mexican wools, the Colorado wools, the California wools, which are all traded in what we call the dirt and the grease. Those very wools do not shrink one year as much as they shrink another. If they should have a very heavy rain previous to the shearing time, they might not lose quite so much in scouring them as they would lose if they had no rain at all, as, for instance, this year. It is something which the

buyer absolutely has to determine for himself; it is his individual judgment when he gets that wool, and that is what makes the price, whether that wool shrinks 50, 52, 55, or 60 per cent. I have had wool before the greatest experts that the New York market ever saw, and one claimed it would shrink 52, another 55, and another 57. Gentlemen, that in itself made a difference in the price of 2 or 3 cents a pound, and that is one of the reasons why wools can not be traded on the exchange—only one.

Another is that it can not be classed like cotton can. Take, for instance, the State of Texas, with which my friend to the left is more familiar than with any other. There are sheep men in Texas who shear only once a year; there are others who shear twice a year, once in the spring and once in the fall. The spring wool is generally the growth of seven months and the fall is the growth of five, caused by the fact that they want to shear as early as possible in order that the sheep would have a little wool on them again when the cold season comes. The very character of the wool is entirely different. There is not a single clip—which used to be always sold by the name of the owner; that is the way they were sold—there is not s single clip that compares exactly the same with the clip of any other man. It is something entirely individual. I think I can better illustrate to you if I tell you that the American sheep originally was a Mexican sheep, whose wool was not adapted for anything but carpets. No cloth could be made out of it. When Texans went into the sheep business they commenced by degrees to raise fine breeds, and succeeded to a wonderful degree, and there are to-day as fine wools in Texas as are raised anywhere. But that does not do away with the fact that there are not two clips that are exactly the same. In my time I used to sell the Calahan clip that was a clip that amounted to 160,000 or 180,000 pounds every six months. Every man in New York knew what a Calahan clip was, and they bought the Calahan clip, no matter what it was. They thought sometimes they knew it, and sometimes they found out that they did not. [Laughter.]

Another thing that enters into the sale of wool, sometimes is shives and sometimes it is burrs, which can only be taken out by very improved machinery. You can not sell anything of that character ahead unless you can show what you have. Contrast with it the cotton. I do not know how much you know about cotton, but I think it is not disputed that cotton can be accurately classed and every grade of cotton ascertained.

Referring to the question somewhat, in my concluding remarks, I must say that I sympathize with those Members of Congress who come from sections where cotton is raised. They, as I believe, have been instructed and almost compelled by their constituents to assme an attitude antagonistic to the cotton exchange. I ask them to consider for one moment that if their constituents had been present at this hearing whether they would be still of the same mind that they were when they wrote those letters? I do not believe there is any man in the hearing of my voice who would not admit readily that it would have brought about a change of opinion in many of them. I ask them to rise to their feelings of patriotism, to rise above instructions from their constituents to that plane which does work for the common good and for the common country, and not only for a part—a few misguided people in one section of the country. I ask

you, gentlemen, to read the speech of Senator Vest and read the speech of Senator White, then a Senator from Louisiana, who made an argument on the Washburn bill, which is to-day as unanswerable as at the time he delivered it. I ask you gentlemen to rise to that plane of statesmanship of Senator White, now a Justice of the Supreme Court of the United States, the greatest tribunal in the history of the world.

Concluding, gentlemen, I wish to thank you, Mr. Chairman, and through you every member of this committee, for the patience with which you have listened to our arguments, for the courtesy shown to us, and, above all, for the great fairness displayed in this hearing.

I wish to submit the speeches of Senator White and Senator Vest.

The CHAIRMAN. Without objection they will be included in the hearing. We could give a few minutes to examination, if some gentlemen have questions to ask.

(The speeches referred to will be found in the appendix.)

Mr. ELLERBE. I want to ask one or two questions. You said in your excellent remarks that it was always true that a big crop brought a small price and a small crop brought a big price. Is it or is it not true that there is an old expression that you should bull the tail end of a big crop and bear the tail end of a short crop?

Mr. MANDELBAUM. I did not hear it expressed that way. I heard it different, that you should not bull the tail end of a small crop and should not bear the tail end of a big crop.

Mr. ELLERBE. Is it not true that when the country gets it into their heads that there was a short crop made, the prices generally go down at the end of that year?

Mr. MANDELBAUM. You want me to explain that, of course. You want a fair answer.

Mr. ELLERBE. Certainly.

Mr. MANDELBAUM. It depends entirely on the prospects of the growing crop, which casts its shadows long before it enters into actual appearance, and which, to a great extent, is caused by the fact that a great many, probably a great many more producers than I or you know, commence selling the new crops.

Mr. ELLERBE. The question I really wanted to ask you is this—I just happened to think of that—you stated that if there were no exchanges the farmer would be at the mercy of the spinner entirely?

Mr. MANDELBAUM. Yes, sir.

Mr. ELLERBE. I want to ask you this question, and I am serious about it, because it has been troubling me some time. Is it not true that the spinners of the world need, approximately, we will say, a million bales of cotton a month?

Mr. MANDELBAUM. Yes, sir.

Mr. ELLERBE. Is it not true that during the months of October, November, and December from 60 to 75 per cent of the cotton is sold?

Mr. MANDELBAUM. Yes, sir.

Mr. ELLERBE. Is it not true that the spinners of the world requiring a million bales of actual spot cotton per month during those three months, when, we will say, seven million of bales of cotton are forced on the market, can they not go in the market and buy three million bales of cotton, go on your cotton exchanges and hedge against, as

you call it, four million bales, then withdraw from the market at the time the poor farmer has to sell his cotton and leave him at the mercy of anybody in the world, with nobody to buy his cotton?

Mr. MANDELBAUM. You want me to answer that?

Mr. ELLERBE. I would like to have an answer to that. I want to repeat now, he would need three million bales of cotton. He can buy three million. He can go and buy Marchs and Aprils and Mays and Junes and Julys, four millions of it, and withdraw from the market and force the farmer to dump four million on the market when there is an actual demand for only three million.

Mr. MANDELBAUM. I want to answer the question just in the line in which Mr. Neville has. It is true the spinner uses approximately a million bales of cotton. It is equally true that the farmer, during the first four months of the cotton crop, raises not seven or eight million, but nine million. It is equally true that somebody has to buy that cotton, and it is equally true that by the medium of the exchanges those buyers are furnished to enable a spinner who has not got the money to buy the physical cotton during the entire year, to protect himself by a hedge from a man who has the cotton and paid for it. I do not know whether I have made myself perfectly clear to you.

Mr. ELLERBE. I understand you, I think.

The CHAIRMAN. Have you finished, Mr. Ellerbe?

Mr. ELLERBE. I wanted to ask Mr. Hubbard just one question.

The CHAIRMAN. Suppose we finish with Mr. Mandelbaum first.

Mr. SIMS. You give the reason why you could not have a wool exchange dealing in futures like you do in cottons—these months, of course—and I accept it as absolutely true. Now, then, do not wool manufacturers contract their output for many months ahead?

Mr. MANDELBAUM. No, sir.

Mr. SIMS. Do not woolen manufacturers agree to sell—I mean the manufacturer of cloth—agree to sell the manufacturers of garments cloth to be supplied to them months ahead?

Mr. MANDELBAUM. I want to explain that to you.

Mr. SIMS. I am first asking you if they do it.

Mr. MANDELBAUM. I am very glad you brought that question out. The wool that most manufacturers buy has gone through a portion of the manufacturing process already; that it, through the scouring process. After wool is scoured you can determine with a greater degree of accuracy what it is than you can do before it is scoured. You have at least the question of shrinkage eliminated, just the same way as you can determine after it is put into cloth with some less risk what it is.

Mr. SIMS. You have not answered my question at all. I ask you if it is a fact that manufacturers of woolen cloth contract to sell their output for delivery several months ahead to the makers of clothing?

Mr. MANDELBAUM. I did not understand you, but I will answer that question. I suppose it is done to a very limited extent.

Mr. SIMS. Is it not a general thing?

Mr. MANDELBAUM. It is not; absolutely not.

Mr. SIMS. Do woolen manufacturers manufacture clothing and keep it in their manufactories and wait for somebody to come?

Mr. MANDELBAUM. The cloth, yes.

Mr. SIMS. As a general rule?

Mr. MANDELBAUM. The cloth, yes. Do you want me to tell you why they do it?

Mr. SIMS. I am asking you for a fact and the reason of it.

Mr. MANDELBAUM. I will tell you the fact, why they do so. One fact is that manufactured goods do not fluctuate in the way raw products fluctuate. The price does not change, is one thing. Another is the protection they receive at the hands of Congress. Nothing can be shipped from any foreign country that does not pay a prohibitive duty, almost, and that keeps the goods market more steady.

Mr. SIMS. My question was world-wide, not confined to the United States.

Mr. MANDELBAUM. If it is world-wide, I will answer it no.

Mr. SIMS. They generally sell their goods?

Mr. MANDELBAUM. I am not talking about goods; I am talking about the wool.

Mr. SIMS. I am talking about the manufacturers making cloth from wool. Do they not contract to sell their manufacture ahead of the day of manufacture?

Mr. MANDELBAUM. Yes, sir; they sell it six months ahead.

Mr. SIMS. Then you have answered what you have repeatedly refused to answer. Then, if it is possible for woolen manufacturers, without a woolen exchange, to sell their manufacture six months ahead, why could not cotton manufacturers do the same way without a cotton exchange?

Mr. MANDELBAUM. In the first place, Mr. Sims, you and I do not agree exactly the way the woolen goods business is done. The manufacturer buys his wool, and, as they pretty much have to pay the same price for the wool and have nothing to fear from foreign competition, do not export any woolen goods, they put a certain price on it, and that price is sent out to their drummers, their agents, and those goods are made new only after orders are received, in most instances.

Mr. LEVER. Reference has been made to the Marsh committee. What is that committee?

Mr. MANDELBAUM. The Marsh committee was appointed by the exchange to take up the charges made in the first book of Mr. Herbert Knox Smith.

Mr. LEVER. How long ago was that committee appointed?

Mr. MANDELBAUM. I should say about fifteen months ago.

Mr. LEVER. Has it ever made any report?

Mr. MANDELBAUM. No, sir; they have not come to a conclusion. They are making tests in regard to loss in the different grades, and the reason we did that was because we had been assailed, it being stated that it was not possible that seventeen men could sit on a revision committee and not be somewhat influenced by individual members, and in order to take it out of the hands of anyone to make those differences, we wanted to see—and we have spent a great deal of money on it—whether we could not arrive at a definite conclusion and vote the different grades according to their spinning value, once and forever.

Mr. LEVER. That is the reason you have not made the report?

Mr. MANDELBAUM. Yes, sir.

Mr. LEVER. You made some reference to the moral phase involved in this question. Do you consider there is a moral phase involved in it?

Mr. MANDELBAUM. I do not. I am only saying I have been at a loss to understand what the propounders of this bill are proceeding under. I have been impressed it was one thing, and then I have been impressed it was another.

Mr. LEVER. There could not be any moral phase in it, unless there were illegitimate transactions on the exchange?

Mr. MANDELBAUM. There could not; there is not.

Mr. LEVER. There are no illegitimate transactions?

Mr. MANDELBAUM. No, sir.

The CHAIRMAN. I have just one question that I would like to ask Mr. Mandelbaum, perhaps two. What are the most active speculative months?

Mr. MANDELBAUM. There are not so-called speculative months; they are all traded. The only thing is that for some reason or other, for no purpose—I state that under oath—for no reason whatever it seems that hardly anybody ever trades in November. There is absolutely no reason for it, and that hardly anybody ever trades in February, and that hardly anybody ever trades in April; and those are the only three months.

Mr. ELLERBE. How about June?

Mr. MANDELBAUM. June, yes; I beg your pardon.

The CHAIRMAN. That fact essentially was stated here by other witnesses several times, and I had a curiosity to know if there was any reason for it.

Mr. MANDELBAUM. It is a mere accident that those months have been the active months, and everybody would rather trade in an active month than in one that is inactive, but it is absolutely and unqualifiedly on no theory connected with the exchange.

The CHAIRMAN. And yet just by accident it happens that the same months each year are dull in the cotton exchange?

Mr. MANDELBAUM. Yes, that does not refer to price. The price is the same whether they are traded or not. You seem to labor under a misapprehension that it would make any difference of the price.

The CHAIRMAN. It really has no particular bearing.

Mr. MANDELBAUM. If you wanted to buy in November you could buy, and it would have the same relative value with the other months.

The CHAIRMAN. I understand that perfectly, but the answer to my question would have no particular bearing on these bills. I only asked it out of curiosity.

Mr. MANDELBAUM. Just a mere accident.

The CHAIRMAN. It seems strange to me that in a product in which there was so much trading in bulk there should just happen to be three or four months of the year when the trading would be dull.

Mr. MANDELBAUM. Eight months in the year; only four inactive months.

The CHAIRMAN. I said only three or four months in the year in which the trading should be dull.

Mr. MANDELBAUM. It may astonish you, Mr. Chairman, that we amongst ourselves have often sought for the reason for that, and we

never could find what the reason was that hardly anybody ever trades in February, November, April, or June.

The CHAIRMAN. So there is something about the cotton business that even you do not know. [Laughter.]

Mr. BROOKS. Then you do not agree with Mr. Neville in his statement yesterday that it curtails the consumption of cotton for the American merchant not to be able to sell ahead to the exporters, as he illustrated in his case with the Chinese merchant.

Mr. NEVILLE. I do not think I stated it.

Mr. BROOKS. I am very positive you did.

Mr. NEVILLE. I am reading over the testimony now, and if I find it I will call your attention to it.

Mr. MANDELBAUM. If he stated it I disagree with him, and I have disagreed with a great many of my colleagues; sometimes to a very heated extent.

The CHAIRMAN. That is too bad. [Laughter.]

Mr. BROOKS. If it would benefit the foreign spinners for these futures to be prohibited, throwing the trade over there, why are the American spinners in favor of it?

Mr. MANDELBAUM. I think I made myself perfectly clear that this was one of the phases that came out yesterday in which even we thought it just came out by accident. We did not think of it until it came out yesterday just by accident, when Mr. Neville touched that question, and I just saw where the difference came in, and I do not believe it ever occurred to a spinner. It did not occur to me, and I have studied it as closely as anybody.

Mr. BEALL. Mr. Mandelbaum, the elimination of the New York exchange, in your judgment, would not be especially to the detriment of the spinner, I understood you?

Mr. MANDELBAUM. I think so; I think it would be to the absolute detriment of the spinner.

Mr. BEALL. It would be possible for the spinner to readjust his business so as to still continue to spin cotton, even without an exchange?

Mr. MANDELBAUM. Everything can be readjusted in this world, Mr. Beall. We even might get along without any Congress. [Great laughter.]

Mr. HEFLIN. You would like to dispose of this one, would you not?

Mr. MANDELBAUM. I would not. I have the highest respect for Congress.

Mr. BEALL. You do not agree, then, with these other gentlemen, that the elimination of the exchange would result in putting the producer of cotton very largely at the mercy of the spinner?

Mr. MANDELBAUM. I do.

Mr. BEALL. You do agree with that?

Mr. MANDELBAUM. Yes.

Mr. BEALL. You do think, then, that the elimination of the exchange would put the spinner in position to dominate the cotton market?

Mr. MANDELBAUM. Yes, sir; and it would not be long before he would have a combination, too, to do it with.

Mr. BEALL. You think it would be ultimately to the advantage of the spinner to have the exchange eliminated, then?

Mr. MANDELBAUM. Not after he found how it affected him—sometimes a man wants something very badly and he gets awful sick after he gets it. It has happened to you already; it happened to me yesterday. [Great laughter.]

Mr. BEALL. How did you reconcile that with your statement that the elimination of the exchange would give the spinner the mastery of the market?

Mr. MANDELBAUM. At first it would benefit him as far as the purchase of cotton is concerned. It would certainly work to his benefit for any goods he uses in this country. But one fine day—which is not an isolated case; that case cited by my friend Neville is a case that happens almost every day; we are naturally getting to be less of an exporting country, and are bound to get to be less of an exporting country as our natural products grow less, and are consumed at home—and then one day they would find they could not make a contract with a merchant in China, Japan, or in Italy, because they could not secure the cotton for future delivery.

Mr. BEALL. Just one case Mr. Neville used in illustration. In individual instances it would then be to the embarrassment of the spinner?

Mr. MANDELBAUM. I would put it in a great many instances, not in individual instances.

Mr. BEALL. Would you think that, as a general rule, it would be to the detriment of the spinner?

Mr. MANDELBAUM. It would be from a political and economical aspect. It would be to the absolute detriment of the industries of the country, which are all intimately connected with each other.

Mr. BEALL. With the elimination of the exchange the cotton merchant could still continue to do business?

Mr. MANDELBAUM. No.

Mr. BEALL. You do not agree, then, with Mr. Cone? He stated he was a cotton merchant and could probably make more money under a different system than he makes now.

Mr. MANDELBAUM. I agree with him and I disagree with him. More might be made on 200 bales than he is making now on 1,500. It may be he looks at it from that view. But I want to give you a little history in answer to that question. When I did business in San Antonio, in 1872 and 1873, we used to figure, in buying cotton, on a margin of 1½ to 2 cents above all expenses. That was from $7.50 to $10 a bale, and then very often we came out behind because the margin was not sufficient.

Mr. BEALL. Do you or do you not agree with Mr. Cone?

Mr. MANDELBAUM. I do not agree with him.

Mr. BEALL. That answers my question. Your chief solicitude is for the producer. You think it would work to his detriment?

Mr. MANDELBAUM. My chief solicitude—I want to be perfectly frank—is for everybody connected with that business, whether he be the producer, the spinner, or the man in New York.

Mr. BEALL. Is there anything connected with the New York Cotton Exchange, its methods of doing business, its management, its operations, that you do not approve of?

Mr. MANDELBAUM. As far as the management goes, there is absolutely nothing I do not approve of.

Mr. BEALL. I mean the system of conducting the business.

Mr. MANDELBAUM. There are things on which men differ, like all men differ.

Mr. BEALL. I understand that; but is there anything you do not indorse?

Mr. MANDELBAUM. Nothing that pertains to the cotton exchange as an exchange.

Mr. BEALL. Its methods of doing business?

Mr. MANDELBAUM. No, sir.

Mr. BEALL. You give your indorsement, then, to everything connected with the cotton exchange and its methods of doing business?

Mr. MANDELBAUM. Yes, sir.

Mr. BEALL. A while ago you made some comparisons between the Burleson bill and the Scott bill. I understood you to say that the operation of the Burleson bill would affect only one class, either the buyer or the seller, I have forgotten.

Mr. LAMB. The seller.

Mr. BEALL. I would infer from that that you think the Scott bill is a better bill, broader in its application, and so forth, than the Burleson bill?

Mr. MANDELBAUM. I think so.

Mr. BEALL. Have you ever compared those two bills?

Mr. MANDELBAUM. To a certain extent, yes.

Mr. BEALL. I will ask you, as a matter of fact is it not true that the Burleson bill and the Scott bill are exactly the same, except one of them applies to cotton and the other applies to cotton and grain?

Mr. MANDELBAUM. I do not think so.

Mr. BEALL. Is it not a fact that the language of the two bills, paragraph after paragraph, is exactly the same?

Mr. MANDELBAUM. I do not think so. I only got them day before yesterday, and I had absolutely no time to make a close study, but on a superficial looking at the bills it seemed to me, and I believe so yet, that the Burleson bill does not speak about anything but selling the cotton.

Mr. BEALL. If they are the same, then the distinction you draw between them is not a correct one?

Mr. MANDELBAUM. The distinction would not be a correct one, except that it would be a further distinction between the business of the exchanges in this country; that it would eliminate from them the grain exchange.

Mr. BEALL. Suppose there traded on the New York Cotton Exchange only the members of the exchange, only the spinners, only the merchants who handle cotton—they are the only ones who conduct any business on the exchange, or for whom any business on the exchange is conducted—and the New York Cotton Exchange existed under those conditions. Suppose there is only the trading between you members, only the hedging of the cotton merchants and only the hedging of the spinner; could there exist the New York Cotton Exchange as it is conducted now?

Mr. MANDELBAUM. Mr. Beall, I am not a prophet; I can not answer that question.

Mr. BEALL. The question I have suggested eliminates only the man who goes in there and trades on it purely as a means of speculation. That is the only man, I understand, whom my question eliminates.

Mr. MANDELBAUM. No; you clothe business with such difficulties s to require affidavits on both sides that would make it appear that ie business that is done on the New York Cotton Exchange would e of a semicriminal character.

Mr. BEALL. I am only asking you if the NewYork Cotton Exchange ould exist if only these classes were included.

Mr. MANDELBAUM. I am inclined to think it would.

Mr. BEALL. I am only eliminating the man who speculates upon otton as a pure matter of speculation.

Mr. MANDELBAUM. I think it could.

Mr. BEALL. Would the business of the exchange be seriously ffected?

Mr. MANDELBAUM. I think so.

Mr. BEALL. Then, as a matter of fact, in your judgment, a very rge part of the business upon the New York Cotton Exchange is onducted by men who trade on that exchange simply through a pirit of pure speculation?

Mr. MANDELBAUM. No, sir. That leads back again to the whole uestion of future trading, Mr. Beall.

Mr. BEALL. You spoke of the difference between wool and cotton.

Mr. MANDELBAUM. Yes.

Mr. BEALL. There are differences, of course, but is it not true that both the wool trade and the cotton trade there is at least this point f similarity—that in both there must be a supply of lambs in order make trading brisk?

Mr. MANDELBAUM. In wool?

Mr. BEALL. In wool and cotton both.

Mr. MANDELBAUM. In wool there must be a supply of lambs; that the origin of the business. [Laughter.]

Mr. BEALL. Is not the lamb in the cotton business of about as uch importance as the lamb in the wool business?

Mr. MANDELBAUM. No, sir.

The CHAIRMAN. I will ask you just one question, if everybody else as concluded. I believe it is your contention, and that of your colagues, that there are no transactions on the New York Cotton xchange in which the intention of bona fide delivery is not present, lthough the expectation may be absent?

Mr. MANDELBAUM. It is.

The CHAIRMAN. Then, a bill which seeks only to interdict messages elating to contracts in which future delivery is not intended would ot in any way concern the New York Exchange?

Mr. MANDELBAUM. I do not think so, for the very reason that if n affidavit could be demanded, or would be demanded, it would put stigma upon the whole business and destroy its influence amongst he commercial world, not only in this country, but amongst the hole commercial world.

Mr. MCLAUGHLIN. The affidavit would be difficult to get.

Mr. MANDELBAUM. Affidavits can be made very easy in this country, and the fact is that there are so many affidavits required that it eems to me sometimes that they have really lost their effect, and here is no question in my mind that this bill, to a great extent, ould encourage perjury, evasion, and circumvention of the law.

Mr. McLaughlin. There would be no need of evasion or circumvention, because they are all dealing honestly. It would seem to be a difficulty imposed on the dealer to make the affidavit.

Mr. Mandelbaum. I do not know what might be in your mind when you send an order from Omaha or some other place. I have to take it in good faith that you do.

Mr. McLaughlin. It would be a mere inconvenience to the dealers there?

Mr. Mandelbaum. In New York?

Mr. McLaughlin. It would be a mere inconvenience to those doing business any day through the stock exchange, if an affidavit were required in each case?

Mr. Mandelbaum. The stock exchange is not included in that bill.

Mr. McLaughlin. The cotton exchange, I mean.

Mr. Mandelbaum. It would not only be an inconvenience, but, as I stated to the chairman, it would give the whole business a somewhat dishonorable character.

The Chairman. It would throw a stigma on it, in your judgment?

Mr. Mandelbaum. Throw a stigma on it. It would be used principally by exchanges like the Liverpool exchange.

The Chairman. Does any member of the committee, or any of the gentlemen, desire to ask Mr. Mandelbaum or any other member of the delegation from New York a question?

Mr. Ellerbe. I want to ask Mr. Hubbard one or two questions.

The Chairman. Please make the questions as short as possible.

Mr. Ellerbe. I listened to his remarks about traveling abroad and meeting a member of the New York Cotton Exchange everywhere. I want him to tell me how many members of the cotton exchange live outside of the United States.

Mr. Hubbard. I believe about 69 or 70.

Mr. Ellerbe. Out of a total membership of what?

Mr. Hubbard. Four hundred and twenty-nine.

Mr. Mandelbaum. I beg your pardon. Mr. Chairman, if you will permit me, Mr. Hubbard is only referring to the southern members.

Mr. Hubbard. No; I am speaking of those who live in Europe.

Mr. Mandelbaum. I wish to hand you a directory of the New York Cotton Exchange.

The Chairman. We would be glad to have it.

Mr. Ellerbe. I know it is impossible to say how many contracts or trades were made in any one year, but there are certain figures that always stand out prominently in everything. Can you tell me the maximum; have you any idea?

Mr. Hubbard. No; I have no idea.

Mr. Ellerbe. You do not know about what it would be?

Mr. Hubbard. No more than I could tell, as I attempted to illustrate, when I went into business how many times a bale of cotton had been sold before it reached Europe. I know we used to sell the bales over and over again, and finally we would sometimes get the same cotton back again. My employers would find the market had gone up sufficiently and would buy back the cotton we had previously sold.

Mr. Ellerbe. I notice in the daily reports, for instance, sales 500,000 bales; sales 1,000,000 bales.

Mr. HUBBARD. Those are estimates.

Mr. ELLERBE. There is no record kept of that?

Mr. HUBBARD. I have been there when a man said 20,000 bales were traded or 8,000 bales were traded in a day. It is just simply a guess at it. An employer will say, "How much has been traded in a day?" I say, "I do not know." He will say, "Do you think it has been a million?" I answer, "Maybe."

Mr. ELLERBE. Then there is no way of ascertaining?

Mr. HUBBARD. No.

Mr. HEFLIN. Have you ever had any cotton brought from the Liverpool exchange back to the New York exchange?

Mr. HUBBARD. There has been cotton brought back. I never brought any back myself.

Mr. LEVER. In your best judgment, Mr. Hubbard, how many bales of cotton handled would you call an active day on the exchange?

Mr. HUBBARD. I should think 500,000 bales would be an active day.

Mr. LEVER. Would you call 350,000 a normal day's work?

Mr. HUBBARD. No, I do not think so; I think that estimate is too high.

Mr. LEVER. A million bales would be abnormal?

Mr. HUBBARD. That is extraordinary.

Mr. LEVER. Five hundred thousand would be about the normal day?

Mr. HUBBARD. That would be an active day.

Mr. ELLERBE. Now, if I may just ask one more question, in order to be perfectly fair with you—you see what we are getting at, of course?

Mr. HUBBARD. Yes.

Mr. ELLERBE. I think we ought to have some expression of opinion on this point; if that 350,000 be a normal day's transaction, how much of that is done by the members of the New York Cotton Exchange between themselves, where no commissions are paid, and approximately how much is done by outsiders, where they pay $15 a contract?

Mr. HUBBARD. I could not say. It is very difficult to tell. I might have a stock of cotton in store in New York, as I had the other day, and have now, and I had sold March against it, and there came a demand for January, which carried January to a premium over March so that it might be more profitable for me to make delivery of the cotton in January than March; I bought 6,500 bales of those 8,000 and sold January—there would be 13,000 bales—without paying a commission. So it is rather difficult for me to reach that conclusion.

Mr. BROOKS. Have you any figures of the annual expense of maintaining the machinery of the exchange?

Mr. HUBBARD. It is all in a report. My impression is that the amount expended for running the exchange and furnishing the information of the exchange, our largest item is $18,000 or $20,000. I think the expenses are about $45,000.

Mr. MANDELBAUM. They are covered by a levying of dues of $75 a year upon the membership. It could not possibly be that amount. It is generally a little less.

Mr. HUBBARD. It is in the report. We would be perfectly willing to furnish you the exact figures.

Mr. LEVER. What is the highest and lowest price paid for a seat on the exchange, in your recollection?

Mr. HUBBARD. At the formation I do not know what they charged—a sum of money necessary to equip a room and establish the exchange. I paid $300 for my membership in the exchange in 1879. Then we wanted to erect a building and we limited our membership and gave the world a chance to come in and buy memberships, which they did, and the price ran up to about $5,625, at which I think Mr. Mandelbaum bought the highest seat that had been sold at that time. Afterwards the price went down to I think it was $800.

Mr. MANDELBAUM. Five hundred dollars.

Mr. HUBBARD. And since that time it has been advancing. One time it sold as high as $23,000. Two years ago I bought one for my son at $8,000, and now I think they are worth about $15,000 or $16,000.

Mr. SIMS. Is there not as much actual cotton bought, sold, shipped, and received in the month of November, as there is in the month of December, as a general rule?

Mr. HUBBARD. There is a little more that comes into the market in November than in December.

Mr. SIMS. Is there not as much in February, as a rule, as in March?

Mr. HUBBARD. There is more.

Mr. SIMS. Is there not as much in April as in May?

Mr. HUBBARD. There is more, or should be.

Mr. SIMS. Is there not as much in June, as a rule, as there is in July?

Mr. HUBBARD. It is about an even thing.

Mr. SIMS. Mr. Hubbard, suppose you sell a thousand bales of cotton for December's delivery now?

Mr. HUBBARD. Yes, sir.

Mr. SIMS. In what month would you buy as a hedge against that cotton?

Mr. HUBBARD. Next December?

Mr. SIMS. Yes.

Mr. HUBBARD. I could not buy December now; it is very difficult to buy December.

Mr. SIMS. It is quoted, though; you would buy December?

Mr. HUBBARD. Yes.

Mr. SIMS. Now, then, when will you sell your hedge in actual operation? I have no trick question.

Mr. HUBBARD. Just as soon as I buy the cotton.

Mr. SIMS. And you buy the cotton along in the fall as it is delivered?

Mr. HUBBARD. Yes, sir; whenever I can buy it to the best advantage.

Mr. SIMS. And when you get the cotton in October or November so you can comply with the spot contract, you would sell your December hedge?

Mr. HUBBARD. Yes.

Mr. SIMS. Now, as an inevitable result, when the farmer is selling more cotton than the market demands and you are selling out your hedge, does it not tend to aid in the depression of the price?

Mr. HUBBARD. I do not see it, sir

Mr. SIMS. Selling both at the same time?
Mr. HUBBARD. I do not see it so at all, because there are buyers for all deliveries all the time.
Mr. SIMS. Who buys your hedge when you sell it out to protect yourself on your December delivery?
Mr. HUBBARD. Another merchant who is making another hedge.
Mr. SIMS. Hedging in December?
Mr. HUBBARD. Yes, sir.
Mr. SIMS. Can you gentlemen, all operating in the same month, hedge against each other as to that month?
Mr. HUBBARD. It depends upon our orders. I can hedge and Mr. Neville can hedge me. He may have a contract from the spinner to buy, and I may be selling for a man. It happened last spring when I bought that low-grade cotton.
Mr. SIMS. In as much as there is much actual business done in November, and more than there is in December, why is there not as much future selling or buying in November as there is in December or October?
Mr. HUBBARD. I do not know; it is a psychological question.
Mr. SIMS. And you have been president of the cotton exchange three times?
Mr. HUBBARD. Twice.
Mr. SIMS. And one of its charter members?
Mr. HUBBARD. No; I was then a boy.
Mr. SIMS. And you can not answer that question?
Mr. HUBBARD. No, sir.
Mr. SIMS. I do not mean it as an insinuation; I mean you do not know?
Mr. HUBBARD. No.
Mr. NEVILLE. As an exporter of cotton and a large seller ahead, I can answer that question in this way——
Mr. SIMS. You begged me to quit asking you any questions.
The CHAIRMAN. Let him answer.
Mr. NEVILLE. My answer to that question is this: That spinners very rarely ask you for November shipments. They usually buy September-October shipments, and this cotton enables their mills to run until January or February. The next time they want the cotton shipped to them is December shipments. I can not recall a season where I have sold specifically to a spinner for a stated November shipment. I have sold them October-November shipments where I have the option of shipping either in October or November.
Mr. SIMS. Then you force me to ask you another question.
Mr. NEVILLE. All right.
Mr. SIMS. Are not the exports of cotton in November relatively as great as they are in December?
Mr. NEVILLE. Yes, sir; but that is cotton that has been sold for September and October shipment from some interior point.
Mr. SIMS. If you can get along without futures to hedge for four months, why can you not get along all twelve?
Mr. NEVILLE. Try it.
Mr. SIMS. I am not going to try it.

(Thereupon, at 12.20 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

Rules known as Carolina Mill Rules, or rules adopted by Southeastern Cotton Buyers' Association, and assented to by Representatives of American Cotton Manufacturers Association and Representatives of Carolina Mills, and governing the sale of cotton to domestic mills.

ARBITRATION.

8. a. In the event of disagreement between shipper and mill upon grade, weights, tare, or other claim, the matter shall be settled, if possible, by friendly agreement. If not, then as below stated.

b. If the mill and the shipper can agree upon a third party who is conversant with the conduct of the business, the question shall be submitted to this third party, and his judgment shall be final.

c. If this can not be done, the mill shall select one arbitrator and the shipper select also one (these arbitrators being other than the official representatives between whom the dispute has arisen), to whom the whole question shall be submitted by both parties to dispute either verbally or in writing, and in the event these can not agree, they are to select a third party to act as umpire, whose judgment shall be final. If an umpire can not be agreed upon, then the matter in dispute is to be submitted for the ruling of the New York Cotton Exchange, but this to be a last resort.

d. If the dispute be as to grade, the samples drawn by the mill shall be submitted, unless the seller claims the right to have new samples drawn, in which event samples of cotton shall be drawn by either party with the consent of the other, or by a third party in the presence of both parties. Provided, however, that in cases where it may be impracticable to have samples subsequently drawn, the cotton not so sampled shall be assumed to be of the grade invoiced.

e. In any arbitration, or where any question is submitted to the ruling of New York Cotton Exchange, the party against whom the decision is rendered shall be liable for the expense of arbitration or submission.

AGREEMENT.

9. In absence of other agreement, differences ruling on New York Cotton Exchange at date of sale are to be used in settling claims under all contracts; and in the absence of specific rules hereto covering any dispute arising between parties, the ruling of the New York Cotton Exchange is to govern. Unless specific agreement is made otherwise, in writing, these rules are to govern in the determination of any difference between shipper and mills.

C. W. Heath, *Chairman*,
Caesar Cone,
A. W. Hayward,
T. I. Hickman,
Arthur Whittam,
Committee American Cotton Manufacturers Association.

E. A. Smyth, *Chairman*,
James L. Orr,
Lewis W. Parker,
Committee of South Carolina Manufacturers.

J. S. Hall, *Chairman*,
J. P. Ferrall,
C. B. Howard,
H. H. Orr,
Paul T. Haskell,
Committee Southeastern Cotton Buyers Association.

Speech of Senator Edward D. White, of Louisiana, before the United States Senate, July 21 and 22, 1892, Concerning the Washburn Bill: A Measure Designed to Prohibit Future Dealings in Pork Products, Grain, and Cotton.

Mr. President: The votes which have been hitherto had in the Senate to take up this bill and the general line on which the argument has proceeded seem to indicate that there is probably a majority sentiment on the floor in favor of the bill. I should hesitate very much with this knowledge to make any very elaborate discussion as to the constitutionality of the bill, or as to the wisdom of the legislation which it propounds,

if I were not profoundly conscious that in my judgment there has been before the American Congress for many years no more pernicious, no more vicious, no more flagrantly unconstitutional legislation, no legislation more tending to undermine and destroy the very foundations of our Government, and none more calculated to do untold and untellable harm to the people of this great country. The interests which this proposed legislation affect are enormous. The products, the price or sale of which the bill attempts to regulate, run up into vast proportions.

The theory of the Senator who presents the bill and who urges it with so much zeal on this floor is that if the bill passes, to all the great body of the consumers of this country, representing 78 per cent of the population, there is to be an enhancement in the cost of these vast products. If, then, the arguments of the proponents of the bill be true, upon nearly three billion dollars of products the effect of this legislation will be to increase the price to all the consumers of the country.

My judgment is, on the other hand, that if the bill passes, the necessary effect will be to reduce the prices obtained by the producers of the country to a considerable degree upon this great sum.

With these great issues involved in this bill, issues which go home to every hearthstone in this land, issues which reach out their fingers into the pockets of every man, be he rich or poor, I think I shall be justified in an attempt to discuss its provisions deliberately, in order to point out what I conceive to be the flagrant constitutional defects which are involved in it, and the gross financial and business heresies which it contains.

Mr. President, let me analyze the bill. What does the first section provide? It has been gone over very frequently, but I shall go over it again in order to make clear what I shall endeavor to say.

The first section forbids options, which in the argot of the commercial gamblers are known as "puts and calls." Now, what is a put or call, or an option, as defined in this bill? It is a contract by which a man gives to another a sum of money for the privilege of calling upon that man to deliver property, or for the privilege of delivering to him. It is a purely unilateral contract, by which a man gives a sum of money for the privilege of delivering or receiving property.

So far as this contract is concerned, or this so-called contract, I have no word of defense to raise because it is a contract which engenders no obligation per se. Courts of this land, at least the courts in my State, have declared it is a contract without a consideration, which can not be enforced; that it involves within its bosom an element of chance which makes it purely aleatory, and, therefore, takes it out of the domain of all those great contracts around which the law throws the shelter of its protection and the instrumentalities for its enforcement.

What does the second section provide? The second section defines futures. What does it define futures to be? It defines any contract to be a future where the one selling at the time of sale is not the actual owner of the property, however real may be his intention to deliver at the time stipulated and however great may be his means of fulfillment. What else does it provide? After defining this contract it then goes on to say that neither the Government of the United States nor any municipality, nor any State, nor any farmer, in so far as he may have made a crop or had a crop in process of being made, shall be brought within the grasp of the provision. The amendment which has been adopted on the motion of the Senator from Minnesota also takes all retail dealers out of the reach of the second section.

The bill defines options. The bill defines futures. Is the definition general in both cases? It is. Now, if the proposed statute stopped there and contained its penalties, then every human being and every contract for options and futures wherever our administration extended would be brought within the provisions of the general statute. Does this bill do that? No; it is discriminating from one end to the other. It is flagrantly and openly discriminating.

After defining options and futures, then the bill goes on to say, not that all contracts of that kind within this broad land shall come within reach of this general statute. No, but it picks out particular things and particular subjects-matter to make them alone the subjects of the general law, which, if it has any foundation in public necessity or public right, should operate over a sway as broad as our jurisdiction.

Now, to what is the bill applied? Here are these contracts and here are these general definitions. What does the bill say? That the articles to which the foregoing sections relate are raw or unmanufactured cotton, hops, wheat, corn, oats, rye, barley, pork, lard and bacon. Of all the vast objects of contract in this land it makes a general definition, and then singles these out alone to cover them by the provisions of the statute. If there is a Senator who does not admit that from the day of the Magna Charta down the first and the elementary principle laid down by English-

speaking people is that the general laws should be operated generally and that no discrimination should be exercised? The distinguished Senator from Mississippi (Mr. George) helped to frame a constitution in his State recently. I venture to say that in the exercise of the power vested in the legislature of the State of Mississippi this discriminating clause would be stricken with constitutional paralysis, because it was not the general law. There is not a modern state constitution in this Union which has not put its anathema on discrimination. How, then, is this bill justified? I do not know. By what rule has it been written? What has been the prescience which has looked over all this land and picked out these particular objects to make them alone the subject-matter of this discriminating law?

Mr. President, be the clamor what it may, I know my people well and I should not be afraid to go with my vote before them with this third section in my hand and invoke their ordinary sense of common American fair play and feel absolutely confident of their renunciation of this attempt to discriminate in favor of the one product as against another product.

How is this justified? I have heard some talk about agricultural products. My mail has been burdened every day for almost a month with some circular gotten up by some committee somewhere. The Senator says that this bill is in the interest of the farmers, that the farmers are scattered, that they are not organized and can not protect their right, and, therefore, they must be looked after. My mail has been burdened with private letters, telegrams, circulars, newspapers, pamphlets, in favor of the bill which has engendered in my mind a deep-seated alarm that there is a mighty conspiracy against the comsumers of the country and in favor of certain favored persons, and I think I can demonstrate such to be the fact before I take my seat.

Now, take food products. Does this bill embrace food products? Is cotton a food product? Where are butter and cheese, and cattle, and all the thousand other food products which are left out of this bill which is called a food-product bill? You have in the bill things which are not food products and you have not food products in, and yet it is said a great clamor comes up for this bill from the American people because it is a bill to protect food products. If we are going to protect food products let us protect them. Do not let us discriminate.

If the gambling spirit is what the Senator thinks, then this bill is going to close the exchanges to these products and open the bucket shops and gambling saloons all over the country to the products which he discriminates against, and we must write in the title "An act passed by Congress of the United States to stimulate gambling in the agricultural products, and to encourage the opening of bucket shops, by forbidding gambling in a few products and licensing as to the others."

But, Mr. President, what a proposition that these things are picked out for anathema and denunciation because they are dealt in on boards of trade! God of mercy, in this age of the world are we to shut our eyes to every teaching of the English-speaking race? Are we to confess that we are more ignorant than were our forefathers 200 years ago?

What is the history of English commerce? What has enabled it to grow and prosper, carry on its wings the light of civilization and religion and truth all over this world? What has done it, sir, but the energies of the great commercial bodies of the world, speaking through their chambers of commerce and their boards of trade? The very structure of our Government, almost the very fiber of this Government, was evolved in that country which preserved its liberties by the efforts of its great bodies of merchants assembled together for the purpose of trading. The very essence of trading is liberty itself; intercourse engenders the immortal spirit of liberty from the very fact that men gather together in the interest of commerce, which needs the wings of liberty and of peace to spread itself in enlightening and improving the world.

Let us see what the argument of the Senator would lead us to. What are these boards of trade? They are merely the aggregation of merchants who meet in a room to collect the information necessary to enable every man to trade on an equal footing. The telegraph, the reports of all kinds, the bulletin board, and everything open; so, if I may be pardoned the use of such slang expression, there is a fair and square deal; and the man who buys and the man who sells, all possessing the information which is garnered all over the whole world, deal on an equal footing.

Mr. President, boards of trade are true evolutions of that doctrine of equality which has dominated the world, the equality and liberty of man. The poor man with small capital who comes into the great chambers of commerce and the boards of trade, with all the information exposed to his view, needs to protect himself from being gouged and destroyed only with the light of the reason which God has given him. It is putting him on an equality with the rich man. The purpose of this bill, then, is to strike down all the trading which can be done at an equal advantage, and to stimulate the trading where the small man will be at the mercy of the big man. Its purpose, then,

is to allow trading where all the protections which modern society and modern commerce have evolved will be destroyed. * * *

Mr. President, when I surrendered the floor yesterday I was discussing what I conceived to be the confusion and the discrimination in the terms of the bill as to the provisions creating or defining the acts which the bill prohibits, or virtually prohibits, so as to show that the objects embraced in these definitions were defined by no rule, followed no coherent or consistent line of thought, conflicted one with the other, and were utterly and entirely irreconcilable. If we view the bill as classifying the products as agricultural products, then a vast number of agricultural products were omitted. If we view the bill as a classification of food products it omits many things which are food products.

In answer to that argument the Senator from Minnesota (Mr. Washburn) yesterday said that the line of thought along which the bill proceeded was to reach things which were traded in on boards of trade. The argument which was had yesterday, I think, led up directly to the conclusion that if that were the line of thought which dominated the bill, then the necessary effect of the bill was to increase instead of decreasing gambling and speculation, because, as this system of gambling and speculation has its origin in the inevitable tendency of the human character to take risks, particularly under the conditions of modern life, the exclusion of a few articles which were gambled in to-day, leaving the vast sum of human products out of the inhibitions of the bill, would simply deflect the channel of gambling from the bed into which it now flows into a wider and deeper and stronger and a more pernicious stream of gambling.

I called attention, however, I think, yesterday to the fact that there was in my judgment a philosophically fundamental mistake in attempting to forbid speculative tendencies on boards of trade where that tendency could be executed with reasonable honesty and with reasonable precaution, and encourage and foster speculation where those restraints and restrictions and precautions did not exist.

Last night my attention was called to a discussion of this question in a book on political economy, which seems to be so apposite, so entirely to embrace the subject-matter of this discussion that I will send to the desk and have read the paragraph to which I wish to call your attention:

"It is a singular fact that markets have been the subject of popular prejudice and moral objection, almost in proportion to the perfection with which they economize time, transportation, and effort, and equalize prices. The proper meaning of a market is not merely the place set apart in which buyers and sellers may meet with their goods, but all that territory, with its groups of buyers and sellers, consumers and producers, of which the residents are so brought into union and contact with each other by the mutual intelligence which arises through reciprocal commerce that one price is arrived at by all with facility and promptitude.

"A market rises into its highest efficiency and value when it concentrates into one focus so large a proportion of the buyers and sellers of a certain commodity as to become, in conjunction with one or two other markets of the same kind, an authoritative standards of prices of the articles in which it deals, for all buyers and sellers through the world. By aid of the quick intelligence which the telegraph supplies and of the swift transportation which steam affords the whole world is then converted into one market having one price subject only to cost of transportation of the product between the point for which the price is quoted and all other points. Such markets are the Bourse of Paris for stocks and securities, the London Stock Exchange as well as the London Produce Exchange, the Liverpool and New York Cotton exchanges, the New York Stock Exchange, Produce Exchange, and Real Estate Exchange, and formerly the Gold Room and the Boards of Trade (grain and produce exchange) of Chicago, in conjunction with those of other western cities, and that of Liverpool."

Concerning these exchanges Professor Jevons says: "The theoretical conception of a perfect market is more or less completely carried out in practice. It is the work of brokers in any extensive market to organize exchanges so that every purchase shall be made with the most thorough acquaintance with the conditions of the trade. Each broker strives to gain the best knowledge of the conditions of the supply and demand and the earliest intimation of any change. He is in communication with as many other brokers as possible, in order to have the widest range of information and the greatest chance of making suitable exchanges. It is only thus that a definite market price can be ascertained at every moment and varied according to the frequent news capable of affecting buyers and sellers. By the mediation of a body of brokers a complete consensus is established and the stock of every seller or the demand of every buyer brought into the market. It is the very essence of trade to have wide and constant information. A market, then, is theroretically perfect only when all traders have perfect knowledge of the conditions of supply and demand and the consequent ratio of exchange; and

in such a market, as we shall now see, there can only be one ratio of exchange of uniform commodity at any moment."

Mr. President, the object of the bill, the very classification defined in the bill, is to exclude the products which are dealt in on this kind of a market and leave outside of the operations of the bill the products which are dealt in on another or unrecognized market. I ask the desk to have read the description of the other market to which the things not brought into the bill are relegated:

"In the sale of carriages, pianos, jewelry, clothing, and other things which do not admit of such an authoritative contest over the price there is great inequality in the prices at which two persons in the same city on the same day may buy two things of the same kind and of equal value. Hence there is great cheating in such trading. One may pay $200 for a watch which another buys for $100. There is no standard. In all these grades of goods long credits must be given as the dealers must hold the goods until they reach consumers. But in articles dealt in by produce exchanges the price is avanced to the producer, and his crop can always be sold if he desires, even before it is harvested. Hence the authoritative manufacture of prices confers somewhat the same benefit upon a community as is conferred by an authoritative standard of law, religion, manner, and ethics. It enables every man to know each moment how he stands relatively to the results of his past exertions, what they have cost, and how much he can get for them."

Such, Mr. President, is the description of the market destroyed by the provisions of this bill.

If the purpose and object of the bill is to strike with palsy transactions on boards of exchange or boards of trade, why is it that the terms of the bill leave out all that vast body of property running up into the hundreds or thousands of millions, the bonds and stocks and values of every kind in this country which form the great sum of the speculation of the country?

EXTRACTS FROM SENATOR VEST'S SPEECH BEFORE THE UNITED STATES SENATE IN 1892 RELATIVE TO THE WASHBURN BILL: A MEASURE THAT WAS INTENDED TO PROHIBIT THE BUYING AND SELLING OF GRAIN AND PORK PRODUCTS FOR FUTURE DELIVERY.

I have earnestly endeavored to persuade myself that the path of duty lay in the direction of supporting the pending bill. I have examined it very thoroughly again and again, and I have been unable to come to any other conclusion than that this measure is one of the most pernicious which has come before the Congress of the United States during my fourteen years of public service. Speaking from my own standpoint, and for myself alone, I would be compelled to give up every conviction I entertain as to the structure of our Government before I could give my sanction to this bill.

I know the aggressive and almost overwhelming public sentiment in certain portions of the country is in its favor. I know that explanation will be required in every farming community why opposition is made, but I would rather explain my vote in every township of Missouri from now until the November election than to put myself on record in favor of a bill about the unconstitutionality and the vicious tendency of which I have not the slightest doubt.

Now, Mr. President, what is at the bottom of this whole bill? Legislation for the benefit of the class. Who is here aiding in its passage? Who employs these lawyers to appear here and make learned arguments before committees of the House and Senate in favor of this bill? Who has deluged us with petitions through the mails to pass this bill in the interest of the farmer—the down-trodden and oppressed farmer? Who has done it? The agent of this great milling syndicate, Mr. Pillsbury, who testified before the committee that dealing in options decreases the price of wheat to the producers of the country; Mr. John Whittaker, a pork packer of St. Louis, one of my constituents, who has, of course, endeavored in the course of trade to put down the price of hogs because he is a pork packer and wants to get his raw material as cheap as possible. When did this new burning love for the farmer break out in the breasts of these gentlemen? Is it not in the interest of Mr. Pillsbury, representing 300 mills and elevators in the Dakotas and Minnesota, which belong to Englishmen, to put the price of wheat down to the lowest po ssible point? Is not wheat his raw material? Is not that the exact case with Mr. Whittaker and other pork packers? Do they not want to put down the price of their raw material. And the cheaper hogs are the more money can be put into their pockets.

I do not propose to go into the immense amount of testimony, which simply amounts to opinion as to what would be the effect of this bill. I might stop my argument simply with the declaration that I believe this bill violates the spirit and letter of the Constitution, but it is.not a question as to the effect of this measure. We are told that speculative markets put down the price of the farmer's product. The over-

whelming mass of testimony from men engaged most largely in mercantile and commercial pursuits is against that statement. The experience of men who, like myself, are not experts is against it.

I affirm that the same principle applies to stocks as to grain and other commodities; that speculative markets make higher prices for future sales; whereas when the stock market in New York is down, as it is now, as a matter of course prices fall. When there is speculation, when men are most anxious to become rich suddenly, then prices go up because transactions multiply. How often have we heard it said that hard times make a rich harvest for lawyers. A greater fallacy was never exploded. Lawyers make nothing, comparatively, in hard times. In commerce, where trade is life, when men are hunting speculation and investment, then lawyers, like every other portion of the body politic, thrive and prosper.

No Senator, of course, is here to advocate gambling; no Senator is here to say that puts and calls, where the article is never to be delivered, constitute legitimate commerce; no court in this country has ever given its sanction to any such transaction; but when we are told that because 1,000 bushels of wheat pass through 50 hands in a single day it constitutes a crime, I am not prepared for the conclusion. You can just as well say that the $150,000,000 or $200,000,000 that pass through the New York clearing house every day shows that the bankers in New York are engaged in wholesale gambling. You can as well say that the whole country to-day is engaged in gambling. Does actual money always pass from hand to hand in the transaction of business amongst the people of the United States even outside of cities? Who does not know that but a small portion of the business of this country is transacted for cash? Who does not know that our foreign business is not transacted with money? There is not gold and silver enough in the world to carry on our foreign commerce. It is done through bills of exchange and letters of credit. The shipper or exporter who carries the grain of my constituents abroad sells it and brings back manufactured goods which he has bought with the proceeds of the grain. He has a letter of credit based upon warehouse receipts, and no paper or metallic money passes between the parties. When we trade with South America we send our agricultural implements and now and then a steam engine that has been manufactured here. What do we receive in return? We receive coffee, and we pay for it, when we can not pay for it in goods manufactured here and shipped there, by letters of credit on Europe which we have obtained for the sale of our agricultural products there.

What would be thought of that statesman who would stand here and say that the New York Commerce Exchange or Board of Trade is a gambling institution because there is no actual payment of money from day to day? The president of that exchange, before the House committee, said that 8,000 bushels of wheat very often supplied 50 transactions, and legitimately. Who is there that would dare to say that in the mercantile exchanges of this country they are not required to deliver on future sales? In New York, St. Louis, Cincinnati, and Chicago the rules of the exchanges require that the buyer shall have the right to demand the article sold whenever he pleases. If a dealer there sells 5,000 bushels of May wheat, the purchaser can demand the delivery of the actual article, and it is bound to be delivered.

Now, Mr. President, there are some witnesses who are worthy of credit and yet opposed to this bill. I think one of our Members is entitled to be heard. I refer to the Hon. Michael D. Harter, from the Fifteenth Ohio district, a Member of the House. This gentleman is a practical miller and farmer, and, I take it, is a credible witness, otherwise the people of the Fifteenth Ohio district would not have put him where he is. He is a large miller, and here is his testimony on the subject:

"Speculative prices simply determine the future values of wheat, in which the farmer has no direct interest, and yet even here speculative values disprove the claims made by the authors of this bill, for every year at the season when the farmer is marketing his wheat in large quantities all future or speculative values are higher relatively than the cash value of wheat, which is always controlled by actual purchase and sale of the article itself. Of course high speculative future values at this season of the year are always calculated to advance the cash or farmers' prices for wheat. Let me illustrate this:

"At one mill where I am interested we are not only large buyers of wheat, but have great storage capacity, and this coming harvest we shall put into our warehouse about 600,000 bushels of wheat. If the price were to advance before it were ground into flour 10 cents abushel, it would make us $60,000, but if it declined 10 cents per bushel we would lose $60,000. Not being speculators, knowing that wheat speculation in the end results disastrously to most of the people who engage in it, we should be unwilling to buy such a vast quantity of wheat if we were not able to sell the figures against it and thus protect ourselves against loss on our transaction. Therefore, if we had no future market in which we could sell this wheat, we should buy very much

less of it, and should not be able to pay the farmer within 10 cents per bushel as much as we pay him now, because we would have to have that additional margin to insure us against fluctuations in the market.

"What is true of us is equally true in varying degrees of every miller, warehouseman and exporter in the United States, so that the passage of the Hatch bill would in the end surely reduce the number of buyers of cash wheat from the farmer and put down the price of the wheat that he had to sell.

"But I want now to prove still more clearly that so far as dealing in figures has any influence upon the price of wheat it is to advance it, and, as I have said, it is the speculative dealing in wheat that fixes the price of future wheat. I now want to show by a practical illustration how it is directly to the advantage of the farmer that this speculation should continue. But here is the illustration:

"Suppose we buy 600,000 bushels of wheat in August, September, and October. We find ourselves, under the present system, able to sell May wheat futures against all of it at an average of from 10 to 12 cents per bushel above the cash prices, let us say, at only 10 cents. Now, remember that the cash price is the actual transaction price, the May price being the speculative future or option price. You will at once see the margin the transaction gives us. We have to hold the cash wheat for eight months. If we pay 80 cents per bushel for it and sell it for May delivery at 90 cents, we are obliged to lose the interest for eight months at 6 per cent. This costs us 3.2 cents per bushel. Insurance and other charges and expenses cost us less than 1.8 cents, so that the total expense to us is not over 5 cents per bushel for carrying the wheat until May; from which you see that the speculative price of wheat, which this Hatch bill seeks to destroy, is really 5 cents at the season of the year when the farmer is deeply interested above the cash or actual transaction price which the Hatch bill seeks to make the price for all the wheat which the farmer sells. The farmer ought to see at once, therefore, that so far as speculation in wheat affects him it is altogether in his favor from every point of view, and constantly tends to advance the price which the buyer can afford to pay, and it is a mistake for any man to argue otherwise."

I give that testimony from a Member of Congress who is a practical miller, largely interested in mills, and from an agricultural district. He states this as a result of his personal experience.

I am simply meeting the proposition that dealing in options and futures contracts and limits commerce with foreign nations and among the States. If it is admitted that Mr. Harter was correct in saying he would not have bought 600,000 bushels but for the future, as a matter of course all I have said is proved by his statement. It adds to the volume of commerce instead of restricting it. As to the risk itself, my opinion is that men will go on taking that risk until the world is wrapped in millennial glory, and then you will find some men betting that the millennium is to cease the next day. You can not eliminate this spirit of venture and enterprise and gambling if you choose, especially among a people like those of the United States. You must remake them all over from top to bottom, from the inside to the outside.

In 1610 this legislation was tried in Holland. That nation of merchants found it an absolute failure. They found out what they ought to have known long before they tried experimenting—that no statute can destroy the irresistible laws of commerce.

It was tried in 1734 in Great Britain, our great commercial rival, the mistress of the sea, in Sir John Barnard's bill against options. Some of the sections of that bill are almost identical with the provisions of the pending measure. For one hundred and twenty-five years that statute remained upon the British statute books a dead letter. No man ever availed himself of it except to evade a contract, and no man ever thought of going into court to enforce it against anybody except to get rid of a bad bargain.

In 1812 New York adopted the same sort of an antioption bill as proposed here now. That act was repealed in 1858, and yet in all the intervening time the merchants and dealers were interested in future sales amounting to many millions, both upon the stock exchange and the produce exchange of the great city of New York.

Now, Mr. President, what will be the inevitable result of this bill if you pass it? You will drive all trading in futures out of this country and into foreign countries. You will drive it to Canada, Great Britain, Belgium, and France. Do you suppose that the Congress of the United States can make a statute that will keep your wheat from going to Europe and being gambled on there? What makes the price of American wheat to-day? The Liverpool market. What makes the price of your corn? The European market.

The only competition that the millers and the pork packers now have is in the exchanges and the commission merchants who are buying largely for future delivery. There is hardly a bushel of wheat that goes into the city of New York that is not sold there "on arrival;" that is to say, it is purchased in the country to be delivered in the city of New York at some future time at prices then prevailing.

AFTERNOON SESSION.

The committee met, pursuant to the taking of recess, at 2 o'clock p. m., the chairman presiding.

The CHAIRMAN. Mr. Burleson, we will now hear from you.

TESTIMONY OF HON. ALBERT S. BURLESON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS.

Mr. BURLESON. Mr. Chairman and gentlemen of the committee, I hardly feel that I am addressing this committee in my representative capacity. I am myself a producer of cotton and have been asked by the representatives of the farmers' organizations engaged in the production of cotton to present their views with reference to these bills now before you for consideration. In view of these facts I feel that no different rule should apply in the matter of my being sworn, and I ask that I be sworn as others who have appeared before you.

(The witness was sworn by the chairman.)

Mr. BURLESON. In the outset, gentlemen, I desire to say that it is my purpose to be brief in the discussion of the issues which I think have been made before this committee, and above all things I am determined, and it is possible to do so, to avoid dodging or befogging these issues by indulging in a mere multiplicity of words.

Before I proceed to the main discussion I want to say in answer to the suggestion made by one gentleman representing the exchange, Mr. Mandelbaum, that I am sure that I am not acting under coercion in my advocacy of this legislation. Long before I received a letter on this subject I had started upon an investigation for myself with a view of reaching a conclusion, if possible, whether the practices of the so-called "cotton exchanges" were hurtful or beneficial to the cotton trade. After prosecuting this investigation for some time I reached a satisfactory conclusion in my own mind, and my colleague, Mr. Beall, will bear me out that a number of years ago, before any action had been taken by the Texas legislature in this matter, I met with him and one or two others in the city of Dallas for the purpose of taking such preliminary steps as would result in legislation to drive the wire houses, the representatives of the cotton exchanges, from the State of Texas.

The CHAIRMAN. The warehouses?

Mr. BURLESON. No; the wire houses.

The CHAIRMAN. Explain what that term means.

Mr. BURLESON. The wire houses, if I may so term them, are branch exchanges, are places—not called bucket shops—but places where representatives of members or firms on the cotton exchanges keep boards for the purpose of quoting prices thereon, noting conditions of the crop, and giving notices of sales or purchases on the exchanges, such information being received on a telegraph wire carried to such place for this purpose.

Mr. LEVER. And giving information to customers.

Mr. BURLESON. And giving general information relating to the cotton crop to those who buy or sell future contracts on the main exchange, through the particular wire house. As I say, I reached a satisfactory conclusion in my own mind about the hurtful result of such transactions, and I then introduced a bill which I thought would

correct the evil. And right here, Mr. Chairman, I want to say that if I am mistaken about it, if the practices and rules and regulations and business transacted on the New York Exchange and the New Orleans Exchange are not hurtful to the producer and the consumer of cotton and to the cotton trade, there is nobody more anxious to ascertain that fact than I am, and for that reason—and it will not disconcert me in the slightest—I invite any member of the committee, any representative of the cotton exchanges, to propound queries to me at any time during the progress of my discussion. If the query relates to a transaction or a phase of the business with which I am not familiar, I will promptly say so, but if I can elucidate the subject-matter of the query by my answer, or by telling what I believe or think about it, I will gladly do so.

Above all things, I do not want to do anything that is going to be hurtful to the cotton trade. The welfare of my people—I represent a cotton constituency—the welfare of my State, yes, of my section of the country—is so thoroughly identified with cotton, the production of cotton, the sale of cotton, and the manufacture of cotton, that if a blow were struck it we would be the greatest sufferers, and for that reason I desire to move in this legislation with the utmost caution and to avoid making a mistake, if possible to do so. Above all, I do not want to do any injustice or wrong to the people who are identified with, or interested in, cotton exchanges, especially those who think they are serving a useful purpose; and I want to be absolutely fair in every statement that I make and in every conclusion based upon what I believe are the facts that have been established before you.

Mr. Chairman, I gladly say—I cheerfully bear witness to the fact that, in my belief, for ten years after the organization of the New York Cotton Exchange it served a most beneficial purpose to the cotton trade throughout the world. I believe it was a cotton exchange in the true sense of the word; that it discharged every one of the beneficial functions of an exchange. As a matter of fact, New York at that time was the second great spot cotton market of the world. Spinners' agents, mill treasurers, exporters' agents were there for the purpose of buying cotton, the actual cotton, in New York City, and many were connected with the exchange. Manufacturers of cotton went there during that period to get their supplies, and then—and I want to absolve the members of the exchange from responsibility for it, because I would not be candid if I did not say so—I believe through no fault of theirs, a condition developed which makes it impossible for New York City to be a spot market for cotton. By the development of a commercial utility it became possible for cotton to be shipped direct from the section where it was produced to the door of the cotton mill cheaper than if it was stopped at New York.

The through bill of lading, undoubtedly, and this fact can not be questioned, when its use became thoroughly perfected and was adopted by the trade, brought about a condition which precipitated an immediate decadence of New York City as a spot cotton market. What authority have I for this assertion, Mr. Chairman? Out of the lips of the ablest spokesman for the exchange—and I mean no disparagement to the other gentlemen when I say this, for Mr. Marsh, who has been a professor in one of our leading universities, has been the ablest exponent and defender of the exchanges in this country—we have it that a loss of a dollar and a half a bale is sustained upon

every bale of cotton that is stopped in New York. Of course, gentlemen, you know even if the improvident southern producer could not and would not take advantage of that situation, the shrewd, smart Yankee cotton spinner, the shrewdest man who lives upon this earth, would promptly take advantage of it, and he did, and the decline immediately commenced, and New York is no longer a spot cotton market of any importance.

Now, gentlemen, I want to support the statements of fact, which I will utilize before you, by some character of satisfactory testimony. Ordinarily I am going to take it from the lips of these defenders of the exchanges themselves. Before I conclude I intend to make these spokesmen of the exchanges my witnesses and with their admissions drive the conviction home to the mind of every member of this committee, who keeps an open mind, that the New York Cotton Exchange has developed into just what Mr. Parker, the greatest southern spinner, has called it, a curse to the cotton trade.

Now, let us see whether New York has ceased to be a spot market. I am going to read from the report of Mr. Herbert Knox Smith, and with reference to this publication, gentlemen, I want to state in the outset that I accept literally every statement of fact which is found in this report. I do not agree with all of Commissioner Smith's conclusions; in fact in one very important matter I am in thorough accord with the view taken by Mr. Marsh, which I will discuss later on, but wherever the report of the Bureau of Corporations states a fact I accept it, because there is no motive on the part of this government official to lie; there is no reason why he should embody in this report untruths. He is not swayed by self-interest; he is without local bias or prejudice; he does not live in a cotton-spinning section, he does not live in a cotton-producing section, he is a native of and lives in Pennsylvania; and, furthermore, I know the man. He is an official of ability and integrity, and every statement of fact he has made in this report he believes to be a fact. Now, has New York fallen into a condition of decadence as a spot cotton market? The statement made by Mr. Marsh about the loss of a $1.50 on every bale going there would show you it had, if I did not produce figures to further substantiate the fact. But let me show you the statistics bearing on the proposition. In order to be perfectly fair to the exchange I will take figures for periods ten years apart and then give the average for the ten years.

In 1870–71 the total sales of spot cotton at New York, in proportion to the total crop, were 16.9 per cent. Nearly 17 per cent of the whole cotton crop was marketed in New York City. The development of the through bill of lading took place about 1879. I was curious to know exactly when the general use of the through bill of lading took place, and I addressed a communication to the secretary of the Interstate Commerce Commission, who is one of the best posted men in matters of transportation in this country, with a view of ascertaining the history of its development. He replied that it came into free use in 1885, developing from along about 1880. Now, let us see its immediate effect in New York as a spot market. In 1880–81 the spot sales of cotton in New York had fallen off to 4.8 of the crop; in 1890–91 to 1.1 per cent of the total crop; in 1900–1901 to nine-tenths of 1 per cent of the crop; and for 1906–7, the last crop before Mr. Smith's report, nine-tenths of 1 per cent of the crop—the same as

1900-1901. You naturally ask why? Mr. Chairman, there it is going to remain. New York City, as long as this cotton exchange exists, will always have spot cotton come there just about in that proportion to the main crop. Why? Because it is necessary for the exchange to have a certain reserve in New York in order to meet demands for tender upon its contracts, and by long experience through course of business they have reached a knowledge upon the subject concluding that it takes about nine-tenths of 1 per cent of the crop in order to meet this situation.

Now, as I have said, in order to be absolutely fair I want to give the average of spot sales of cotton in New York for the ten-year periods; this I read from Commissioner Smith's excellent report.

Average for period—	Total spot sales in New York.	Total crop.	Per cent New York spot sales to total crop.
	Bales.	*Bales.*	
1870-71 to 1879-80 (ten years)	434,865	4,397,032	9.9
1880-81 to 1889-90 (ten years)	221,719	6,496,933	3.4
1890-91 to 1899-1900 (ten years)	159,467	8,973,734	1.8
1900-1901 to 1906-7 (seven years)	145,873	11,178,931	1.3

Considering these statistics, if they are based on truth, can anyone doubt that New York has ceased to be a spot cotton market?

But, Mr. Chairman, these figures show that a small lot of cotton does still go to New York. In order to get this cotton to New York it must be brought there by some one—it will not go there of itself; it will not be brought there if it is going to occasion the buyer a constant loss. Everybody is struggling for money. I do not acquit the producers of cotton of a desire to accumulate money any more than I hold up against these exchange gentlemen the desire to accumulate it. Everybody wants to make money, nobody wants to lose money. This cotton is not going to New York at a loss of a dollar and a half a bale, hence it will not reach there unless some artificial condition is created or brought into existence that will draw it there without this loss, and this has been done, and I will tell you in a moment what that artificial condition is. Now, suppose some member of this committee will say, "Well, Burleson is mistaken about this proposition. The fact that they lose a dollar and a half on each bale would not keep cotton from going to New York, and as to these statistics that Mr. Herbert Knox Smith embodied in his report, these gentlemen, representing the exchanges, have denounced his conclusions as 'a befuddlement of ideas,' and his statement of the facts." I do not remember exactly what was the expression with reference to the facts, but they were thoroughly discredited. Suppose there is some committeeman in that frame of mind; if so, will you accept an emphatic statement by a member of the exchange upon the proposition? When the producers and the consumers come here practically united in a demand that this great incubus be lifted from them, and when they offer you admissions out of the mouths of the members of the exchange, do you propose to reject it? I do not believe you will.

Let me give you an admission deliberately made by one of their own people. But before I give to you his statement let us see who

he is? Is he an obscure member, some little insignificant scalper with a desk in another member's office who plies his avocation upon the floor of the exchange day by day, scalping out a miserable existence through the practice of his knowledge of the rules of the exchange? Oh, no; I do not offer you the testimony of that kind of a member of the New York Exchange. I bring before you the greatest spot cotton dealer to-day in the United States, if not in the world, a man whose firm has been and is represented upon the revision committee, and it is the revision committee, gentlemen, that wields the power that controls the organization, that shapes the action of the members of the New York Cotton Exchange, as I will show you later on. I will bring you the admissions of an exchange member, represented on the revision committee, he or his firm, year after year, and I will read you his own letter, giving his views about New York as a spot market [reading]:

PHILADELPHIA, *June 20, 1905.*

MR. ATWOOD VIOLETT,
New York City.

DEAR ATWOOD: I have been intending to write you regarding your circular concerning the certification of cotton in the South, so that it would be a good delivery there against contracts made on the New York Cotton Exchange.

You understand there are two factions in the New York Cotton Exchange, one faction contending that the present system of fixing differences is uneconomical, uncommercial, indefensible, who have expressed the fear that if it was not changed the people of the United States, those people who are really vitally interested in the cotton trade, would ultimately wipe the exchange out of existence. [Continuing reading:]

I agree with your opinion in the matter thoroughly, and if you ever take the matter up again—

Evidently some matter had been taken up before the Exchange on a former occasion and had been defeated, I suppose, through the power of the organization, which is possible, as I shall show you later. [Continuing reading:]

If you agree with me, I would go a step further and ask the New York Exchange to change their differences between grades, if necessary, semimonthly or monthly, depending upon the value of the respective grades of cotton.

Now, Mr. Chairman, this comes not from a spinner who wants the contract changed so as to serve his selfish ends. This is not from a spinner, and I regret that whenever anything has been read during these hearings from a spinner, or when the representatiye of the American Cotton Manufacturers' Association came before you to protest against the practices of exchanges, an effort has been made to leave the impression: "Oh, you can't accept what he wants, because he is controlled entirely by selfishness." Gentlemen, this man from whom I read is not controlled by selfishness, at least not from the standpoint of a spinner. I do not mean he has no selfishness in him. We all have selfishness in us. I believe that even these gentlemen are, in a measure, selfish. But he is one of the great cotton merchants who have been so graphically and so favorably described in the presence of this committee.

Mr. NEVILLE. Won't you add "ably?"

Mr. BURLESON. Yes, I do it most cheerfully, because I admit now that every word that can possibly be said in defense of the New York

Exchange, its rules, its regulations, and its practices, has been most ably presented by the gentlemen selected by the New York Exchange to appear before this committee for that purpose [continuing reading]:

To avoid any effort at local manipulation of these differences it could be arranged upon the average of the differences between grades at five or six of the prominent cotton markets in the South.

My reason for the above is that the efforts of the New York Cotton Exchange for the past five or six years have been to see how poor a contract they could make in New York.

Mr. Mandelbaum says it has attained perfection, that it is without a blemish, there is nothing he would change. Mr. Neville says there is only one slight difference he would make, and he wanted a change so that the spinnable value of cotton should be considered in fixing differences between grades. If I do not forget it—and I hope I will not—I want to say a word about that when I reach that phase of the question. But here is a man who has been represented on the revision committee, as I say, for years, and one of the largest spot buyers in the world. He says:

My reason for the above is that the efforts of the New York Cotton Exchange for the past five years have been to see how poor a contract they could make in New York, and not how good a one or even fair, and I think the time has come when the New York contract should be made a better one than either Liverpool or New Orleans, for with proper differences and the certificate system there is no reason why it should not be. A vital reason for this change comes from the fact that I do not think there is any reason existing why New York should not be a cotton market for the sale of actual cotton.

You know actual cotton is spot cotton. [Continuing reading:]

It has the most perfect coastwise connections with southern ports and very reasonable rates of freight; it has frequent and cheap freight; connections with all the cotton-consuming centers of the world; it is within a night's ride of all the mills in the Middle States and New England, whose consumption is 2,000,000 bales cotton per year if not more; it has the cheapest storage in America.

GEO. H. MCFADDEN.

But you will say, "He does not say in his letter that New York is no longer a spot market." I will read further in a moment but in passing I want to ask, Is there a cotton producer in America, is there a cotton spinner in America or elsewhere who could voice before this committee a severer condemnation of the New York Cotton Exchange than has been made in this letter by George H. McFadden?

Mr. NEVILLE. What is the date of that letter?

Mr. BURLESON. June 20, 1905. I will read you exactly what Mr. McFadden said two years later, when Commissioner Smith was making his investigation of the Exchange:

Mr. McFadden (the author of this letter), when asked in November, 1907, whether he cared to comment upon his letter said:

"Simply that since that time I have changed my mind regarding the situation. New features and new interests coming into the cotton market, and the development of the manipulations in the different positions and months, make it impossible for New York to be what I once hoped it would. Also, the freight situation, which has remained unchanged, has not operated to the benefit of New York as against New England and other spinning districts."

Now there you have it. First there is a loss of $1.50 a bale on each bale of cotton which is stopped in New York, which makes it impossible for it to become or continue a spot cotton market. Second, the actual statistics—and, by the way, did I tell you the sources of these statistics I read to you a moment ago from Mr. Smith's report? I believe I neglected to do that. In order that Commissioner Smith

may not be put in the attitude of going out and cooking up statistics against these exchanges I will say that the figures for the commercial crop are from the government census publication, and the figures showing spot sales in New York are—but I will read from the report:

An idea of the shrinkage in spot sales since 1870 may be obtained from the following table—

That is, the table I read the statistics from a moment ago—

Compiled from figures furnished by the New York Cotton Exchange.

Their own figures. Now, can the conclusion be escaped that New York has ceased to be a spot market?

Now, Mr. Chairman, not only will I demonstrate that New York has ceased to be a spot market, but I want to show you that it has ceased to perform every function of a legitimate exchange. What are the functions of a legitimate exchange? From the day of Adam Smith, who was referred to so glibly here by the distinguished gentlemen speaking for the exchanges, to the last man who has written upon the subject of economics, it is agreed that the primary function of an exchange is to bring the buyer and the seller, the producer and the consumer, together. That is fundamental. It is to bring them together.

Before I proceed further I will read an excerpt from an article published in the Atlanta Constitution in 1907, which has just been called to my attention by Mr. Beall, in which it is said:

The New York market, which, as a regular market for spot cotton, was doomed early in the eighties of the last century, found a new reason for being in the immense development of the theory and practice of hedging transactions in cotton goods.

Mr. LEVER. Who said that?

Mr. BURLESON. Mr. Marsh.

Mr. SIMS. The gentleman who testified before the committee?

Mr. BURLESON. Mr. Arthur R. Marsh, the vice-president of the cotton exchange. But I will proceed.

The second important function of an exchange is that it may enable the producer and consumer to market the product at the least expense. The third function of an exchange is to aid in the speedy distribution of the product with which it attempts to deal. I do not think there can be any division of opinion that those are the important functions of an exchange.

Mr. Chairman, I believe I can show you that the New York Cotton Exchange has ceased to perform a single one of these functions.

First. Does the consumer, the buyer, go to the cotton exchange in New York in order to get his cotton supply? Who are the sellers? The producers, the farmers. Who are the buyers of raw cotton? The spinners. Now, if the producer does not go there to sell, if the spinner does not go there to buy, if it can be conclusively demonstrated that they do not go there for those purposes, will you not be forced then to the conclusion that, in so far as that function of an exchange is concerned, the New York Cotton Exchange signally fails? You heard Mr. Parker when he told you that spinners required even-running grades of cotton. He read before you the resolutions that had been adopted by the Cotton Spinners' Association, of which he is the president. I read you yesterday, and I will read it again now if you want to hear it, what Theophilus Parsons said on this subject. Who is Theophilus Parsons? No antagonism can be aroused in my

breast against the consumers of cotton. I am a producer of cotton myself. My entire fortune, nearly, is invested in cotton-producing lands. I realize, and every intelligent farmer realizes, that the value of our cotton depends upon the demand for this cotton for consumption. Who consumes it? As I have said, the spinners. Theophilus Parsons, a man who has been engaged in the spinning business for decades, honored by those with whom he has been associated for years by being elevated to the presidency of the greatest organization of cotton consumers in the world, as has been said by Mr. Neville, expressed himself about his ability to go there for cotton and what he would get if he went there.

You heard me read from Mr. MacColl, the president—I never can distinguish between the two manufacturing associations—the Northern and the Southern.

Mr. NEVILLE. He is the former president of the National Association of Cotton Manufacturers.

Mr. BURLESON. He is the former president of the National Association of Cotton Manufacturers, the northern organization, and you have heard his statement with reference to the proposition as to whether or not they go to the New York Cotton Exchange for the purpose of doing any sort of business. Gentlemen, it is common sense. If you were inclined to believe that Mr. Parker would come here and willfully misrepresent the facts, do you not know that it is stated time and time again in this report that even-running grades of cotton are required by spinners, generally a half grade above or below a specified grade? It is admitted that if you go to the New York Exchange and purchase a future contract and demand delivery on that contract, you will get or may receive 28 different grades of cotton under the same contract if they see fit to give them to you. Gentlemen, don't you know it is human nature that if I have a contract to deliver to you certain property, and I have the option, as the seller, to deliver to you, and I do not want you to call on me for delivery, that I will tender the very character of stuff you do not want to receive, in order to make you run away from the contract? That is human nature. It is conclusively shown in Commissioner Smith's report that these future contracts for the delivery of cotton are formulated, so framed, that a delivery of 28 different grades can be made if delivery is demanded. Every spinner would flee from such a delivery as he would from a pesthouse, a leprosarium.

This legislation has been under discussion for some time. Don't you know that if there could have been found in the United States a spinner who had gone to the New York Cotton Exchange and demanded a delivery for the purpose of using the cotton in his mill he would be here to tell you of it? The buyer, then, does not go there—to the New York Exchange or New York for his cotton, and I might end the discussion right there, because if the buyer, the consumer of cotton, will not go there, there would be no necessity for the producer to carry his cotton there for sale. But out of the lips of Mr. Marsh we have it that the producer, if he carried his cotton there, would lose $1.50 on each bale, and of course he will not carry it there.

Furthermore—and on this proposition there can be no mistake—Mr. Marsh in his testimony used the language that the New York Cotton Exchange is not a medium through which cotton is either

bought or sold. Why? That is literally true; he meant literally what he said. They do not deal in cotton on the New York Cotton Exchange; they deal in cotton future contracts. And right on that point I want to read you an interview some friend in New York City clipped out of the New York Commercial and mailed to me on December 7. It is an interview by Mr. T. Ashley Blythe, a director of the National Cotton Manufacturers' Association. He gave out the following statement:

The Commissioners' report—

Speaking of the Commissioner Smith report on the cotton exchange—

Covers the situation in most respects, but unfortunately does not go far enough. He does not show clearly the unfortunate position that the legitimate spinner or consumer is placed in by the gambling methods of the New York Cotton Exchange.

It is a well-known fact that no legitimate cotton spinner in the world can spin cotton yarn out of cotton futures. The commissioner does not state what is known to every well-posted cotton spinner—that the cotton exchange of New York sells you cotton on a middling basis, and when the money is put up and the cotton demanded, gives you for every 100 bales probably not more than 5 or 10 bales of any particular grade. In other words, and to be as brief as possible, the cotton exchange of New York, as it is now operated, is not only clearly in restraint of trade, but, further than this, obtains money under false pretenses.

Theophilus Parsons, the head of the greatest cotton consumers' organization in the world, gave you his opinion about the danger of consumers going there to purchase. Mr. Parker, the president of the American Cotton Manufacturers' Association, the southern organization, tells you they do not go there. Mr. MacColl, who was the president of the National Association of Cotton Spinners, tells you that thousands and thousands of them never buy futures and that the exchange has been used to a very limited extent. And here is Mr. Blythe, a present director in that great northern association of spinners, expressing his views on the subject. Now, gentlemen, can there be any question about it that, in so far as bringing the producer of cotton and the consumer of cotton together, the New York Cotton Exchange does not perform that legitimate and primarily most important function of an exchange.

Now, does the cotton exchange perform the second function of an exchange? I do not want to forget anything. I certainly do not want to evade any phase of this question, and I repeat again, if any member of the committee or any other gentleman here wants to ask any question about this phase of the question before I proceed, I invite him to do it, because if I am in error I want to know it.

Mr. Cocks. I would like to have you explain what became of all this cotton that has been in New York. You say the spinner does not go there to buy it. Where does it go? The same cotton does not stay there from year end to year end, does it?

Mr. Burleson. Some of it stays there year in and year out.

Mr. Haugen. How much of it?

Mr. Cocks. That is it. How much do you suppose?

Mr. Burleson. These gentlemen are in a position to tell. I will show you this; I will show you, from one of the certificates from their warehouses, that they certificate more cotton in a year than was brought there, showing conclusively that some of it must have been brought over from the year before. You ask me what becomes of it. Did you not hear Mr. Parker when he stated that when the

future contracts were selling so extremely low in New York he thought surely he could go there and accept delivery at a profit; and he went there to one of the great speculators on the exchange, formerly a member of the exchange, a man whom I heard deliver an address in Philadelphia a few years ago? I went over there myself to deliver an address to the cotton spinners, at their invitation, and just before I delivered my address, or just after, I forget which, Mr. Theodore H. Price delivered an address in which he spoke of the New York stock. He said——

Mr. MANDELBAUM. I would like to ask Mr. Burleson one question, and that is, you have laid great stress on the fact that it costs a dollar and a half to bring cotton to New York?

Mr. BURLESON. Yes, sir; so Mr. Marsh has said.

Mr. MANDELBAUM. I believe Mr. Neill, one of the parties you represent, has stated that it cost them the first month alone, in Galveston, one dollar.

Mr. BURLESON. I am neither defending nor explaining conditions in Galveston, Tex. I am explaining the effect of a statement of fact made here by the vice-president of the cotton exchange which shows the impossibility, from a commercial standpoint, of spot cotton reaching New York. I do not feel called upon to discuss Mr. Neill's statement about storage charges; it is extraneous matter, and I do not want to encumber the record with it.

Mr. MANDELBAUM. I know; but I do. I want to know whether my question is not a question of fact.

Mr. BURLESON. It may be; I do not doubt it. It is immaterial.

Mr. MANDELBAUM. A question of fact that has been brought out at this hearing?

Mr. BURLESON. I do not doubt it, as far as that is concerned.

Mr. MANDELBAUM. That is all.

Mr. BURLESON. I take no issue with you about it.

Mr. MANDELBAUM. Do you not know it is so, that it has been brought out?

Mr. BURLESON. Mr. Mandelbaum, I do not know it, nor do I for the purposes of this argument care.

Mr. MANDELBAUM. You do not know it?

Mr. BURLESON. No.

Mr. MANDELBAUM. You do not know, in other words, what has been going on or what Mr. Neville has been testifying?

Mr. BURLESON. I will accept his statement; I will let it go at that.

Mr. MANDELBAUM. Let it go at that.

Mr. BEALL. Regardless of that, it is a fact that spot cotton does go to Galveston in large quantities.

Mr. BURLESON. Undoubtedly; it is a great cotton market.

Mr. MANDELBAUM. Is it not a fact that three-fourths, or practically seven-eighths, of the cotton that goes to Galveston goes only through Galveston?

Mr. BURLESON. That may be true; it is also a great export market.

Mr. MANDELBAUM. Do you realize that there is nearly as much cotton that goes to the port of New York as goes to Galveston?

Mr. BURLESON. Oh, no; the facts don't show that.

Mr. MANDELBAUM. We will show you.

Mr. BURLESON. I have your own figures upon that proposition.

Mr. MANDELBAUM. Never mind.

Mr. BURLESON. Since the question has been raised, I believe it was; t you gentlemen are in the trade; you should know more about that ın I do.

Mr. NEVILLE. We will answer you, Mr. Burleson.

Mr. BURLESON. I say there is more than 2,000,000 bales of cotton ıt goes to and through Galveston each year.

Mr. NEVILLE. We will give you the whole thing when you get rough.

Mr. BURLESON. I will read——

Mr. MANDELBAUM. One million three hundred and fifty-two thouıd bales went last year through New York.

Mr. BURLESON. I doubt that, but I will read what Commissioner ıith said in——

Mr. MANDELBAUM. I do not care about Commissioner Smith; I am king about the facts in the matter.

Mr. McLAUGHLIN. I would like to hear what Commissioner Smith ys.

Mr. BURLESON. I will read the figures given in his report.

The CHAIRMAN. To whom does he credit those figures?

Mr. BURLESON. To the New York Cotton Exchange. On page 9 you will find that. Suppose cotton does go through New York · export; let us admit for the purpose of this argument it goes rough there for purposes of export; admit that 2,000,000 or 2,500,-0 bales go through there for export. Does that make it a spot tton market?

Mr. MANDELBAUM. Just as much as Galveston, when you say that ven-eighths of the crop goes through Galveston without being ndled there, just as much.

Mr. BURLESON. On page 249 of this report are given the New ›rk spot sales, "for export," "for consumption," "on speculation," d the total. I will take the last year we have here, 1906–7: For port, 18,464 bales—I really hesitate to read it because it is in-ːdible—for consumption 99,801 bales. Two years ago I was reading m Shepperson's Cotton Facts, or Latham Alexander's Statistics, ıt for a particular year there was only, I think, 23,000 bales of ›t cotton that reached New York during the year, and dear old epperson, who has been in the cotton business a long, long time ՝ is the exchange's principal statistician), nearly had a spasm ıen he read my deductions from these figures; and he rushed into ՝ columns of the New York Journal of Commerce making a defense New York as a spot market, and he was ably supplemented in s effort by Henry Hentz & Co., and even the Evening Chronicle ›k a whirl at me on the proposition, saying I was either wittingly unwittingly falsifying the records in order to show that NewYork d ceased to be a spot market, and yet George H. McFadden, the ›atest spot merchant in the United States—and these gentlemen n not deny it—a member of the New York Exchange, admits it s ceased to be a spot cotton market, and that he has abandoned pe of its ever again being a spot market.

Mr. MANDELBAUM. What page did you read those figures off?

Mr. BURLESON. Two hundred and forty-nine, volume 1.

Mr. SIMS. May I ask you a question right there? It was read sterday by Mr. Neville in reply to a question from something, I n't know what he read from, that the deliveries and redeliveries

of cotton in New York on the cotton exchange for a year were about 500,000.

Mr. NEVILLE. Five hundred and six thousand.

Mr. SIMS. And his deduction was that about two-thirds was the cotton that was bought and sold during that current year.

Mr. NEVILLE. We have the spot sales right here.

Mr. SIMS. Now, Mr. Burleson, if the whole 500,000 bales had been bought and sold on the cotton exchange that year, if they would equal one-twentieth of the cotton crop of that year, I would like to ask if one-twentieth can possibly fix the price of the nineteen-twentieths?

Mr. BURLESON. Certainly it should not.

Mr. HUBBARD. Is Bartlett, Tex., in your district?

Mr. BURLESON. Yes, and it is quite a cotton market.

Mr. HUBBARD. Do you know a gentleman there by the name of W. B. Cox?

Mr. BURLESON. Yes, I know him.

Mr. HUBBARD. Will you be kind enough to write to him and ask him how much cotton he shipped to me this last year?

Mr. BURLESON. Why should I do that? I do not doubt he shipped you cotton, but for the purposes of this discussion, we have the statistics of the exchange itself. If we can not take the statistics of the exchange, if these gentlemen are not willing to stand by their own figures compiled by their own statistician, promulgated in their own defense, we can have no basis for fair discussion, and this controversy would be interminable. Now, Mr. Chairman, I am perfectly willing to answer any question hereafter propounded, but I want them to be short, because my time is flying.

Mr. MARSH. May I make one simple suggestion, that Mr. Burleson give the figures for the spot sales in New York and then the figures for the spot sales in Galveston?

Mr. BURLESON. I think I have that right here in this speech of mine—a very comprehensive document, by the way.

I will read, though I believe it does not give spot sales:

In 1906, as I have shown, the entire receipts at New York amounted to 6,575 bales and in 1907 the receipts reached a total of 23,108 bales. For the same year (1907, the receipts at Galveston amounted to 3,891,695 bales; at New Orleans to 2,296,971 bales. At the end of that season Galveston had 30,820 bales on hand and at New Orleans there remained on hand 31,964 bales.

Now, let's see what stock remained on hand at the end of the same season in New York—169,975 bales. Its receipts during the three years preceding in the aggregate were less than 65,000. Thus you see we have the proof of the truth of the charge made by Mr. Price and many others that this low-grade cotton has been accumulated and held in New York for several years for purposes of tender on contracts for futures.

But, gentlemen, for the purposes of this discussion, understand me, suppose I admit that Galveston is not a spot market at all; Galveston is not under discussion here; why should we divert attention from the real issues involved before this committee by weaving in a thread of irrelevant matter to cover up, confuse the real woof and warp of matters in controversy? Why should we do it?

Mr. COCKS. I will tell you one reason why, because I would like to know where in the world there is a spot market.

Mr. BURLESON. There are innumerable spot markets.

Mr. COCKS. All right. If it is not in New York, I would like to know where it is. I am all mixed up on this.

Mr. BURLESON. I will say to the gentleman from New York that Houston, Galveston, New Orleans, Savannah, Memphis, Taylor, Waco, and Greenville are great spot cotton markets where men are to be found day by day, week by week, and month by month, acting for spinners who want real cotton, buying cotton in even-running grades, for purposes of legitimate consumption.

Mr. COCKS. What I would like to know is how does the cotton get from these spot markets you have mentioned to the spinner in New England, for instance; is it shipped there to him?

Mr. BURLESON. Mr. Cocks, it is bought either by the merchant or some spinner's agent in 100 or 500 bale lots when it is needed, assorted into even-running grades, and that is sent by through bill to the mill.

Mr. NEVILLE. Mr. Cocks, for fear you get a false impression of that, I would like to ask Mr. Burleson if the farmers sell it to the agents in even-running lots?

Mr. BURLESON. Certainly not. I sell my cotton frequently in what is termed, colloquially——

Mr. NEVILLE. Hog-round?

Mr. BURLESON. Hog-round. I sell it hog-round. For instance, I have a number of bales of cotton that is very bad, low grade; it was the last pickings; it was the last cotton that was scraped together in the ginnery, before it was put through the gin, and finally ripened into a bale, and I make the entire lot of cotton sell this low stuff. I make the good sell the bad, and the man who buys it culls it, selecting that desired by spinners, and the remainder is what is called "overs." The low grades are left over, and it is these overs, as I will show you by admission of the exchange, or the representative of the exchange, which, as a result of the action of the revision committee of the New York Cotton Exchange, finds its way to the warehouses of the New York Cotton Exchange and acts as a thermometer or a standard by which the value of the product of the farmer, yet unsold, is frequently if not constantly measured.

Mr. MARSH. May I ask a question at that point? I should like to ask Mr. Burleson whether he has been encouraged by the New York Cotton Exchange to produce and pick a low grade of cotton?

Mr. BURLESON. Oh, no; I have not been encouraged to do that, but I will say this, and Mr. Marsh can not escape the conclusion, and every man here will know it is true—that on a big plantation there is not that care exercised about protecting the cotton from trash. You must remember that in white cotton it is trash alone that either lowers or raises the grade, and when I know, and when it is known by every practical farmer in the South, that some one will take this low-grade cotton, that you can force them to take it, and that they take it because of the fact that they know it has been overvalued in New York and can be disposed of, I will show you this cotton is overvalued in New York so that no one can possibly get away from admitting it—that these low grades of cotton or undesirable grades have been constantly overvalued, that it will find its way to New York. Undoubtedly if that opportunity of disposing of this cotton was done away with, was eliminated, the farmer would be more careful in the gathering and treatment of his crop so as to protect if from leaves and trash.

Mr. HOWELL. You state that the mills buy even lots of cotton?

Mr. BURLESON. Yes. Cotton of even running grades.

Mr. HOWELL. And yet there must be a large part of the crop that is inferior cotton?

Mr. BURLESON. No, not a large part, Mr. Howell; it has been estimated at less than 10 per cent.

Mr. NEVILLE. You referred just now to the overs being low grade cotton.

Mr. BURLESON. Oh, no, overs may be either of themselves a very low grade of cotton or it may be that in a year where the cotton crop is of a very high grade, the overs may be extremely high grade cotton. And in a year like that, instead of overvaluing the low grades of cotton the New York Cotton Exchange, because this very high grade cotton is the least desirable cotton, from the standpoint of the spinner, have overvalued the high grades, and I will show you that stated emphatically in Commissioner Smith's report.

Mr. NEVILLE. One more question on the subject of overs.

Mr. BURLESON. Yes, sir.

Mr. NEVILLE. Does it ever happen that a buyer in your territory, in buying your run of cotton, hog-round, could happen to have overs running from strict low middling to good middling? I am only asking because I want to get the record straight; these are not antagonistic questions.

Mr. BURLESON. Permit me to assure you in advance that I always regard you as friendly, and you could not ask a question that would arouse antagonism on my part. I want to answer your question in the utmost candor. Mr. Chairman, as incredible as it may sound, for I have been in the cotton-producing business all my life, from the time I was 18 years old, when I commenced to look after and manage my own farm, I have been producing cotton, and I pledge you my honor I can not tell one grade of cotton from another, hence I can not answer Mr. Neville's question.

Mr. NEVILLE. That is all.

Mr. BURLESON. You must have cotton right before you in order to class it, and then you must be able to keep in mind the difference in grade. That is one of the reasons prompting me to introduce my bill a few years ago to bring about a uniform standardization of cotton. I did it in order that the farmers and producers might be able to secure a standard to show the different grades of cotton.

Mr. MANDELBAUM. Were you not indorsed by the New York Cotton Exchange, and were not your standards approved?

Mr. BURLESON. No; I do not think they have yet been approved.

Mr. MANDELBAUM. Were you not indorsed, and were you not told it would receive the full approval of the exchange?

Mr. BURLESON. I believe that is true; but, as I said before—and I am not saying it just to hear the sound of my own voice; I never was more honest in a statement in my life—I sincerely believe if these gentlemen could conduct a proper exchange in New York they would do it. I have no feeling of antagonism in my heart toward them. I told you just now that geographic conditions, conditions of trade, are such that it is utterly impossible to maintain a cotton exhange in New York, and these gentlemen must recognize that fact. I am not criticising them harshly; they can not help themselves; and I make that statement believing sincerely in its truthfulness. I do not know whether I have answered the gentleman from New York about how it ultimately reaches the spinner. It is bought by such men as Weld, Neville & Co., McFadden & Co.——

Mr. NEVILLE. And thousands of other parties.

Mr. BURLESON. No; not thousands, but numbers of others. Sometimes they buy it hog-round, as I have described, and sometimes they have their men to buy it in large lots from merchants. They assemble it and make the selection of grades desired. They make the assortment, responding to the demands of the spinner, and then ship it to him direct.

Mr. JOHNSON. You were diverted from what you were about to say about Mr. Parker going to New York to buy cotton. I would like to know if Mr. Parker got any cotton.

Mr. BURLESON. Yes, to return to our muttons, we all recollect about Mr. Parker saying that a few years ago he thought the prices of future contracts in New York were so much lower than spots that he could surely go there and get cotton at a profit that he could use. He said "I went up there, and I went to Mr. Theodore Price." Theodore Price at that time was conducting a bull or bear raid, I do not know which—and in this connection I will say candidly that I believe I understand the economic effects of certain of the rules of the New York Cotton Exchange, which I am going to discuss, but there are transactions that take place on the exchange with which I am not familiar. I do not pretend to be familiar with them. I can not explain how their rules can be evaded; how this "scalping" process takes place; how "turns" are made; how they "hammer the price down;" how they create or bring about "rings." I do not pretend to be familiar with those. But I know that at the time I speak of Mr. Parker said Mr. Theodore Price had accepted delivery on contract of a large amount of certificated cotton. He was conducting some sort of a transaction on the exchange and had accepted delivery of a large amount of the New York stock. Now, gentlemen, you remember how Mr. Theophilus Parsons described this cotton. What did Mr. Parker say about it? "I went there, and Mr. Price was anxious, of course, to get rid of this cotton in order to effect his corner, or squeeze, or whatever it was." He had taken the small quantum of cotton in New York at that time, and still demanded of these—I will not say gamblers—these merchants, that they come forward and comply with their contracts. Mr. Parker wanted cotton, and looked into some of this Mr. Price had on hand. He opened up some of it, and what did he find? I will not attempt to describe it, but leave it to your recollection as to what Mr. Parker said of it. I will not attempt to quote him, but we all know he said it was useless to him. And I suffered another diversion, Mr. Chairman, when I started to tell you what Mr. Price said in his Philadelphia address about the New York Exchange stock of cotton. I will in this connection read what he said. [Reading]:

There is no limitation in New York upon the delivery of cotton, with a staple so short that it is almost unspinnable. In fact, in my opinion, there is in the New York stock at present a considerable quantity of cotton that approaches dangerously near, so far as its staple is concerned, to what are ordinarily described as "linters." This is cotton which has remained in New York for an indefinite period.

* * * * * * *

They sell what they do not have in the hope that delivery of it may not be demanded, and to make sure that it will not be demanded the process of rendering the stuff that was to be delivered less and less desirable, year by year, has continued until to-day there are in New York some 20,000 or 30,000 bales of cotton which I think have been there from three to four years, and some of it longer, and which no one can be induced to buy except for the purpose of redelivering it as a means of depressing the market.

Mr. MANDELBAUM. Mr. Burleson has talked about the geographic position of New York.

Mr. BURLESON. Yes, sir.

Mr. MANDELBAUM. On that point I want to ask the question again, how it was possible that if the geographic position is so against New York, 1,352,000 bales of cotton should go through it in one year?

Mr. BURLESON. Well, I should like very much to be sure of your premise before I answer. If 1,350,000 bales of cotton did go through New York for export purposes, that would not make it a spot-cotton market.

Mr. MANDELBAUM. Your conclusion about the geographic position was incorrect.

Mr. BURLESON. Oh, no; the geographic position alluded to is with reference to the section where the cotton is produced, and I think every member of this committee understands what I meant by that. I think I have shown that the consumer of cotton does not go to New York for his stock, nor the producer to sell. That is one function of an exchange that the New York Cotton Exchange does not meet. I do not think any man can possibly gainsay that proposition. Now, let us go a step farther. Does the New York exchange perform the second important function of an exchange? Does it aid in the marketing of the crops at the lowest expense to producer and consumer?

Mr. HAUGEN. I infer from what you say Mr. Parker said that the cotton carried in New York, in the warehouses of New York exchange, is of very inferior quality—poor quality cotton?

Mr. BURLESON. Mr. Haugen, I will give you a clean-cut answer to that query with which these gentlemen will not take issue. The New York stock depends on the general character of the cotton crop. If the general character of the cotton crop is low, I mean low in grade, and the revision committee of the exchange has overvalued the low grades, then the cotton which finds its way to the exchange for certification is low-grade stuff; but if the general character of the crop is of high grade, then the revision committee will overvalue the higher grades of cotton, and instead of being low-grade stuff seeking certification by the exchange, it is the very highest grades of cotton; it is the character of the cotton crop which determines what kind of cotton finds its way to New York. I will put it to you in a word—as aws said by Mr. Marsh, the cotton brought to New York is that grade being least freely bought by the spinner.

Mr. HAUGEN. But my inquiry is as to the quality of cotton. I want to know if you contradict the statement made by Mr. Marsh. He says the quality of cotton is good; that is, it comes up to a certain grade. Do you agree with Mr. Marsh as to that statement, the quality of cotton held in the warehouses in New York and sold to the warehouses of New York?

Mr. BURLESON. As I said, Mr. Haugen, it depends on the general character of the crop.

Mr. HAUGEN. I do not think you answer my question as to the quality now of the cotton.

Mr. NEVILLE. If you will let me put a word in right there, I think you will make this clear to Mr. Burleson. Say, if the spinning quality of the cotton in New York is the same.

Mr. HAUGEN. It is not necessary to have spinning quality if it has quality.

Mr. MANDELBAUM. The gentleman's question is whether the cotton furnished is of the correct grade.

Mr. BURLESON. I will answer your question as best I can. I have never seen any of this cotton myself. But if I had to pass on its quality, I would rather accept the testimony of men who spin cotton, like Theophilus Parsons, like Mr. Parker, like Mr. Blythe, or Mr. McCall, than the testimony of men who speculate in cotton. You heard, also, what Mr. Price said on this subject.

Mr. HAUGEN. Then do you except to the statement made by Mr. Marsh that the quality of the cotton is good, and the same quality of cotton is handed out that is received? My question is, is the cotton dumped on the New York market of that quality? He says that the quality was good, up to a certain standard—I do not remember the term used. Do you except to that statement?

Mr. BURLESON. I do not deny that the character of cotton certificated there is the character of cotton that they turn out, as you put it; but I do deny——

Mr. HAUGEN. Your contention is that they manipulate the price of it?

Mr. BURLESON. Not only that, but as to its quality, permit me to read to you——

Mr. HAUGEN. I do not want to take up your time. I do not question your statement about the price. I simply wanted to know as to the quality of cotton that is being delivered at the exchange in New York.

Mr. NEVILLE. If Mr. Burleson will pardon me, I introduced yesterday, before this committee as a witness, a gentleman who is now in the employment of the Agricultural Department, making the standard types that Mr. Burleson offered the resolution for a year ago. That gentleman testified as an expert and under oath of allegiance to the United States, in the honest discharge of his duties, that he had classed the cotton referred to—some of the cotton referred to—in the New York stock, and that it was all merchantable and spinable cotton called for in the trade certificate.

Mr. HAUGEN. Now, what I want to know is if Mr. Burleson excepts that statement.

Mr. BURLESON. No. I do not.

Mr. HAUGEN. As a fact?

Mr. BURLESON. No; I do not believe this cotton is desired by spinners.

Mr. HAUGEN. That is what I wanted to know.

Mr. BURLESON. I will read from Mr. Marsh himself on that point:

The reserve (actual cotton) of the New York Cotton Exchange must always be taken from those kinds of cotton which for the time being spinners are not buying freely, and which consequently holders of cotton in the South are willing to part with at a concession for the sake of getting their money out of them.

Mr. HOWELL. Then, I think my question comes in.

Mr. BURLESON. Permit me to finish my answer to Mr. Haugen. What is the quality of cotton? Mr. Marsh says it is cotton the spinners are not buying freely—in other words, cotton they do not want. What character of cotton is it? I will now read from a report by the chairman of one of the important committees of the New York Cotton Exchange. Are you willing to accept declarations

made in his report? You ought to be willing to accept his admissions. What did he say [reads]:

The cotton world is demanding that we must represent the real trading basis, the spot prices, for spinners' cotton, not prices based on overs, low grades, and speculations.

Now you will remember I asked Mr. Marsh the question: "Mr. Marsh, what is it that fixes the price of future contracts?" He says, "It is an offer to sell on the part of one man and the acceptance of this offer by another that fixes the price of the future contract." "What are those prices based on?" "They are based upon the cotton that is in the warehouses of the New York Cotton Exchange tenderable on these contracts. This is true, because a man bids with the expectation of paying for that which he is going to receive." "What is he going to receive?" "He is going to receive the quality of cotton that is in the warehouse." "What is in the warehouse?" "Low grades, or cotton not being bought by spinners, and overs." You can not get away from it.

Mr. COCKS. Yes; but you said sometimes it was very high grade cotton.

Mr. BURLESON. Oh, yes. Now, wait a minute.

Mr. COCKS. I am confused. I am getting a little mixed about this.

Mr. BURLESON. And yet there is no reason why you should be. I tried to make it as plain as I could. When the trade does not want high-grade cotton, when there is a great superabundance of high grades, then the accumulation in the New York Cotton Exchange is of the very high grades, because those are the characters of grades that the spinners are not buying freely.

Mr. COCKS. Then would not that raise the price?

Mr. BURLESON. Raise the market price?

Mr. COCKS. Yes; deliverable on contract?

Mr. BURLESON. On the contrary, the fact that these grades not wanted, but at the same time overvalued, makes a man run away from it. They can not sell them, hence the price of futures are depressed.

Mr. COCKS. Yes; but it ought to make the price higher of the poor cotton.

Mr. BURLESON. Oh, not at all; because those grades are overvalued and——

Mr. COCKS. If I have a carload of horses to sell and the valuation is based on the best horse in the car, of course a low-priced horse is going to bring what I consider an over-high price.

Mr. BURLESON. Yes; but when they overvalue the high grades, and you do not want them and they have them, and you know——

Mr. COCKS. Yes; but even so, if my other horse is going to be delivered, that low-priced horse, at the price of the high one——

Mr. BURLESON. You must remember that this is a basis contract. You do not get all high grades of cotton; it is a basis contract. That is where the difficulty comes in of understanding it.

Mr. HAWLEY. You read an extract there from some remarks of Mr. Marsh a moment ago, and I did not hear your conclusion. Did you deduce from his remarks that he admitted that the cotton in the warehouses in New York was not merchantable or spinable?

Mr. BURLESON It was the character of cotton that the spinners are buying least freely; that is, the cotton that is the least desirable by them at the particular time.

Mr. HAWLEY. I wanted to know whether you thought that was an admission on his part that the cotton there was not what you call spinable?

Mr. BURLESON. When it is a low-grade crop, when the character of the crop is low grade, it undoubtedly is.

Mr. MANDELBAUM. Mr. Chairman, the only thing that puzzles me in the explanation of Mr. Burleson is this, that he spoke that we are dealing in nothing but phantom and spook cotton, and I do not understand, therefore, what the cotton has, according to his opinion, to do with the whole matter. [Laughter.]

Mr. BURLESON. If Mr. Mandelbaum will contain his soul in patience, I will shortly discuss that phase of the matter. I will show him how much of this cotton is spook or phantom cotton and how much of it is actual cotton. But I wanted to show, if I could, and I think I have—that the New York stock, whether high or low grade, is always undesirable. I am anxious to proceed to the next branch of this discussion, because I want to agree with Mr. Marsh. I want to show that as to the second function of an exchange the New York Cotton Exchange fails to meet the test. That is, does it aid in marketing the cotton crop at the least expense to the producer and consumer?

Mr. LEVER. Before you leave this point, I think if you will just explain this proposition you will make it clear to these gentlemen what you have been driving at, and I think you have not made it clear. Whenever there is a very high grade of cotton raised during the course of the year the New York Cotton Exchange overvalues the high grades?

Mr. BURLESON. That is what I have said as plainly as I could state it.

Mr. LEVER. If there is a large crop of low grades, they overvalue the low grades?

Mr. BURLESON. I have so stated.

Mr. LEVER. For the purpose of drawing those grades into the stocks of New York, for the purpose of delivering upon future contracts, for the purpose of depressing the prices of future contracts; is that true?

Mr. BURLESON. I will not say that is the purpose of it. That is the inevitable effect. If it is not wanted, a grade, whether high or low, if tendered on contract, depresses the price of futures.

Mr. LEVER. Is that the effect?

Mr. BURLESON. That is undoubtedly the effect of it; and just one more assertion. I do not know how I can make it plainer than I have already made it by reading Mr. Marsh's statement about it.

Mr. COCKS. I understand Mr. Marsh's statement exactly, I think, but the point I do not understand is, how does overvaluing the high-grade cotton depress the spot market or the price to the producer? That is what I can not see.

Mr. BURLESON. I have not reached in my discussion the effect of the price of futures on spots but I promise to submit data bearing thereon which will be to your complete satisfaction. The point now is the character of the New York stock, and I could not make my meaning plainer if I were to state it a thousand times. Mr. Marsh

expresses it exactly in his statement. With a wonderful facility for conveying the thought in his mind, he expressed it exactly, and much better than I could, when he said:

> The reserve of actual cotton in New York must always be derived from those kinds of cotton which for the time being spinners are not buying freely, and which consequently holders of cotton in the South are willing to part with at a concession.

That is, the men who grow the cotton, whether it is high or low grade cotton, which at the particular time is not being sought by the spinner, are willing to get rid of it at a concession in order to dispose of it.

Mr. COCKS. Is not that true in regard to everything? If I go into Kansas City with a carload of heavy hogs, and there happens to be an overplus of heavy hogs on the market, I may have to carry those particular hogs over until the next day.

Mr. BURLESON. That is all right, but suppose it was within some one's power to use the price offered or given you for this undesirable load of hogs as a standard to measure the value of the desirable hogs that were being brought there by other people; would not that be unfair?

Mr. COCKS. Sure.

Mr. BURLESON. Would it not be unjust?

Mr. COCKS. And on the other hand, suppose the high-priced load of hogs was used as a standard to value the hogs of everybody else. [Laughter.]

Mr. BURLESON. But suppose that those hogs must be disposed of——

Mr. COCKS. Oh, never mind; they are good hogs and they will keep. [Laughter.]

Mr. SIMS. I think there is a misunderstanding of what you are getting at.

Mr. BURLESON. There is absolutely no misunderstanding on my part.

Mr. SIMS. The cotton exchange, as I understand, puts a value on that high-grade cotton at a time in excess of what you could sell the cotton for in market if delivered to you on the contract?

Mr. BURLESON. That is it.

Mr. SIMS. And therefore, instead of taking the delivery and selling out the cotton——

Mr. BURLESON. They run away from it.

Mr. COCKS. I understand that, but I do not see how that depresses the price to the man who brings a bale of cotton in that very day. It looks to me like he must be getting a big price for his cotton if it is based on the low-grade cotton.

Mr. ELLERBE. Is it true or is it not true—I must confess I have not seen a published statement in some months, but is it not true—that approximately a year ago there was in the neighborhood of 35,000 or 40,000 bales of cotton in New York that was considered unspinable, and that that cotton, according to all newspaper reports, was used to depress prices?

Mr. BURLESON. Of course I have no knowledge of that. I read what Mr. Price said about it.

Mr. ELLERBE. Is it not true that two months ago, taking the grades of cotton from the top to the bottom, there was a very small percent-

› of cotton in the warehouses of New York that was middling or ›ve?

Mr. BURLESON. I have no knowledge about that. I have not n it.

Mr. ELLERBE. Is it or not true that there are a great many mills in s country that can not spin cotton below strict low middling?

Mr. BURLESON. I have no personal knowledge on that proposition. ıen I reach that phase of the question in my discussion, I have a tificate of the New York warehouses of the New York Cotton change which I will submit to this committee, which shows exactly › character of the cotton that it had in its warehouses at that time.

The CHAIRMAN. Allow me to suggest that it is growing late, and we nt to finish the hearings on this branch of the subject this evening, l I think you had better proceed with your argument, Mr. Burleson.

Mr. BURLESON. Let us see whether the New York Cotton Exchange forms this function of an exchange by marketing this cotton at the st expense. It has been brought out in this testimony that the nmission is $7.50 for each 100 bales for the buyer and $7.50 for the ler, or $15 on every 100 bales of sales that take place on the New rk Cotton Exchange. That is an admitted fact. Now, these ıtlemen who operate the New York Cotton Exchange maintain borate establishments in New York. They have typewriters and nographers and elaborately furnished offices, and the New York tton Exchange itself is a palatial structure, and it costs some ›ney to operate that. Many members operate private telegraph es to warehouses and local agents throughout the country. These ›enses, added to commissions which amount to $7,500,000 must ount to a vast sum. Is this all? By no means. It takes a vast ount of money to finance future transactions—not based on actual ton, it is true—I have shown that the actual cotton does not go to w York—nevertheless, the burden of all this expense rests on the ual crop.

Consider for a moment the money required for future transactions. $2 per bale is required by way of margin on each transaction of 100 es, the buyer and seller between them put up $400. It is a simple tter of calculation to arrive at the result showing that first and last 50,000,000 bales of cotton $100,000,000 would be required in mar-s from the seller and a like amount from the buyer. Of course se vast sums are not all required at one and the same time, but en it is used someone pays interest thereon. Now, if a fluctuation price takes place, a further margin is required; for every twenty nts an additional dollar per bale must be put up. And if a violent ctuation occurs and a change of as much as 100 points is made in market price, it would represent on the year's transaction one-ırter of a billion dollars. I would not have you believe for a mo-nt that any such sum of money or credit is called in use at one ıe, but during the cotton season covering the full year this vast sum the aggregate may be required, and if so, someone pays tribute refor in the way of interest. What in the way of additional burden es this place on the actual crop? It staggers one who attempts to ke the calculation. Upon whom does the burden of that rest? ıere does it fall? Mr. Beall repeatedly during the hearings asked › question, "Where does it rest; where does it rest?" I do not

agree with the statement contained in Commissioner Smith's report that it rests upon the speculator. Not a bit of it. Mr. Chairman, there is no peculiarity hedging around cotton which exempts it from the operations of the ordinary laws of trade. If I have a horse that I want to sell, and I propose to sell through a broker and that broker is going to charge me 5 per cent for his services, and I wanted to realize $95 for my horse I would just add $5 to my price and sell my horse for $100. The man who bought it would of course bear the burden of the broker's commission.

Mr. COCKS. He might make you split the commission. [Laughter.]

Mr. BURLESON. He would if he was as smart as the people on Long Island. You may reverse the proposition. If a man wants to buy a horse and he is going to buy through a broker and he has got $100, he goes to his broker and says, "I want to buy a horse and I have $100," and the broker replies "I will charge $5 to buy a horse for you. I know all about horses, I am a good judge of horses, and I will do the best I can for you." The man says "Here is my $100. Go out and buy the horse." The broker takes the $100, deducts from it his 5 per cent, goes out and buys for his customer a horse that costs $95. There is no escaping the proposition that the burden of this broker's commission rests on the buyer or seller. Mr. Marsh laid down the correct rule. It is a rule of trade that is as old as the hills. No modern development can possibly change it or enable anyone to evade it. On a declining market the seller bears the burden and on an advancing market the consumer bears the burden. In principle I agree with Mr. Marsh exactly, but I do not exactly agree with him when he says that finally on a rising market the ultimate consumer in Canton, in Manchuria, or in the jungles of Africa, wherever cotton goods are bought, bears this burden. Now, in one state of the case that may be true, because it is human nature for the original buyer—consumer—of the cotton goods to unshoulder this burden, if he can, and if the price continues to advance he does unshoulder it on the ultimate consumer. But suppose the price fluctuates just at the time he is ready to dispose of his goods and a decline takes place; then, as has been stated here, there is in a measure a parity between the cost of raw cotton and the cost of cloth, and if the price fluctuates before he sells his goods, and begins to decline, then the original consumer, the spinner, is unable to unload the burden on the ultimate consumer, and he must bear it himself. Consider for a moment this stupendous burden. Can you conceive of a more uneconomical situation? A product of 5,000,000 of people, consumed by a few thousand spinners here and a few thousand spinners abroad; can anyone offer a reason why the cost of marketing their crop should be increased by these stupendous charges? Can any man question the proposition that at the least, under these conditions, under the admissions made by Mr. Marsh himself, this crop is not marketed at the least expense to the producer and the consumer? So you see the cotton exchanges fail to perform the second important function of the legitimate exchange.

Now, let us see whether the cotton crop is distributed expeditiously throughout the world by the aid of these exchanges. That is the third important and necessary function of an exchange. I have shown you that they have signally failed in performing the first two functions of an exchange. Now, let us see whether they fulfill the

third function of an exchange—to aid in expeditiously distributing this crop throughout the world wherever it is needed. I say they do not. I have only to cite the testimony of Mr. Hubbard this morning in response to a question asked by Mr. Heflin, "Do you know of cotton being shipped back?" Now, catch exactly what the function is. The third function of a cotton exchange is to expeditiously distribute the cotton to those who are going to consume it, to distribute the raw material to those who are going to use it—to the mills. And yet Mr. Hubbard said that the conditions on the New York Cotton Exchange had been such that he had known, or had heard, and admitted it to be a fact, that cotton grown in America, after it had reached the coasts of Great Britain or Europe, en route to the consumer, had been, for the purposes of gambling pure and simple, in order to meet the demands of speculation by cotton merchants, turned in its course and found its way back across the ocean to be tendered on future contracts at the New York Cotton Exchange. Is that the only ground upon which I can base an assertion that these exchanges do not aid in expeditiously distributing the cotton crop? By no means. Did you not hear Mr. Parker, did you not hear Mr. Mandelbaum, did you not hear Mr. Neville say that when these violent fluctuations take place on the New York Cotton Exchange and prices go down, cotton farmers stop selling? No sales occur while fluctuations are taking place. The farmer lives in hope that the price will advance, and instead of disposing of his crop expeditiously, in order that it may find its way into the ordinary channels of trade to those who are going to consume it, he holds it. Thus these exchanges obstruct commerce, obstruct and interfere with the distribution of the cotton crop rather than assist it. Now, is there a man here who will question that? Can any fair-minded man question it?

Now, gentlemen, let me move on to what I regard as the most indefensible feature connected with this whole business. The New York Cotton Exchange, during the period of its usefulness, operated under a rule of fixing differences between grades, so that such differences were measured by the commercial difference in the values between the grades. The law of supply and demand measured what that difference in value should be. Now understand, gentlemen, we have reached the period in the history of the world where the consumption of cotton is in excess of production by probably 1,000,000 bales. There is no question about this. The suggestion has been made about the spinner not taking cotton, that the producers might become the victims of the spinners who might not buy. Yet if they should cease to take cotton, if they did not buy the product to keep the spindles moving in Manchester, for instance, there would be riots in the streets of that city within sixty days.

Mr. Cocks. Even though they were manufacturing cotton at a loss?

Mr. Burleson. Well, Mr. Cocks, I have never yet found any business where a man, either in law or in morals, is entitled to an insurance that he will make a profit.

Mr. Cocks. Except under the tariff. [Laughter.]

Mr. Burleson. It is claimed by some that they do not always make it, even if high.

Mr. Cocks. I can not quite get your point. As I understand, you would try to make me believe that the cotton spinner is going to buy this cotton anyhow, whether he is going to make a profit or not, because there would be a riot if he did not. That is the point I do not see.

Mr. Burleson. I do not say that he has to buy cotton anyhow. He can not buy it unless the producer sells it. If the producer burned his cotton, of course the spinner could not buy it. But, Mr. Cocks, it is a law of economics that when one man has something he wants to sell and another man has a use for that something and wants to buy it, it is natural that they should get together, and I have no fear that the cotton grower and the cotton spinner will fail to get together. When the New York Cotton Exchange started upon its career under its rules it fixed the difference between the grades of cotton in accordance with the values as determined by the law of supply and demand. During the first ten years of its existence the New York exchange fixed these differences just as they are now fixed in Liverpool and just as they have always been fixed in New Orleans. Then the period arrived when New York commenced to decline as a spot market. As you know, it is impossible to operate the exchange without having some cotton there to be used for purposes of tender on contracts. If cotton will not go there at a loss, they must create a condition that will bring it there. How did they do it? Why, it was a serious problem confronting these gentlemen, how they were going to get the necessary cotton to come there. Now, who is my authority for that? Mr. Marsh. He says:

> One of the most serious problems of the cotton exchange has been and is to so frame these contracts that a sufficient supply of actual cotton will readily come to New York to insure the maintenance of the reserve.

How can they get the necessary cotton to come there? He tells you now that the cotton that comes there is the cotton that is not being freely bought by the spinners.

Mr. Marsh. At the time.

Mr. Burleson. At the time. Oh, yes; at the time. Now, gentlemen, I will tell you how they do get the necessary cotton there, and this is the secret of the adoption of the fixed difference plan, their fixed difference system. The exchange would not have it if it could exist without it. They would prefer, if it were possible, to adopt some other system, but the only way they can get the cotton there for this necessary reserve is by an arbitrary overvaluation of certain grades. This action draws these grades to their reserve. Do they overvalue it? Let us see. By reference to the chart opposite page 160 in volume 1 of this report—and you gentlemen will have this before you when you come to the consideration of this bill—it will be seen that for several years past the New York differences for low middling and good ordinary cotton have as a rule been much too narrow. In other words, these grades were overvalued relatively to middling. What is the effect of overvaluing them? The grades thus overvalued seek the place where they command the best price. Understand, Mr. Chairman, that these grades are not being bought freely by the spinners. Why is it that in a crop year where it is a low-grade crop they overvalue the lower grades and if the crop is a high-grade crop they overvalue the higher grades? Why is it they overvalue the grades that

the spinners are not buying freely? I will show you why. I read from page 291:

At the same time there can be no doubt, in view of statements obtained in the course of the investigation, that large operators, in the New York market particularly, were able years ago, when the commercial differences were applicable on future contracts or when revisions were made monthly, to manipulate prices on a rather extensive scale. This raises the question whether this manipulation may not have been due in large degree to the narrowness of the New York spot market. As shown elsewhere (see p. 247), transactions in spot cotton in New York at that time had already decreased very sharply from the totals of earlier years. Furthermore, the range of grades principally received in the New York market had narrowed greatly, that market in the main receiving only the surplus or temporarily undesirable grades. It is obviously easier to manipulate the prices of such grades than of those which are in active demand, since in the case of the latter any important change in price ordinarily will be vigorously contested as the result of free competition.

For instance, they could not easily manipulate the grades that the spinners wanted. They could not overvalue the grades that the spinners wanted, because the spinners would say, "We want these grades, and we will contest the matter with you." They overestimate the value of those grades that the spinners do not want. In a low-grade crop the lowest grades are least in demand, in a highest-grade crop, ordinarily the highest grades are being bought less freely.

Now, directly on that point, go back to page 253:

For the high grades the differences on the New York Cotton Exchange have been more nearly in line with commercial differences. Nevertheless, in the high-grade crop year of 1903–4 the difference at New York for good middling was, for a considerable period, materially greater than the commercial differences existing at New Orleans, thus overvaluing that grade.

Good middling is one of the higher grades and hence in 1904, a high-grade crop year, it was overvalued——

Mr. Cocks. How did the overvaluing of these low grades that the spinners did not want, hurt the producer?

Mr. Burleson. Because they sell a basis contract, and it pulls down the price of the futures.

Mr. Cocks. That is a future for that stock?

Mr. Burleson. Yes.

Mr. Cocks. And yet you say it is overvalued; and yet the cotton would be overvalued, the spot cotton?

Mr. Burleson. The seller would not have to deliver to you a single bale of that. As a matter of fact, the buyer bids less because of this overvalued cotton. The seller could deliver any of the different sorts of grades on this contract but of course will deliver such grades as will prove most profitable to him.

Mr. Cocks. But that would be quoting the future that day in New York, upon which would be based the pay at Houston, we will say, for spot cotton?

Mr. Burleson. Yes.

Mr. Cocks. Would not that be a little bit higher than usual, then?

Mr. Burleson. Because of the fact that certain grades are overvalued, if a man was going to buy one of these future contracts, it is natural that he would bid lower for it because he would probably have to take these grades at a price higher than their commercial value. Every contract on the New York Cotton Exchange is of that character. They do not sell a contract for a particular grade of cotton; they sell a basis contract upon which at present 28 different grades are deliverable.

Mr. LAMB. Before my friend finishes his earnest speech along this line, I want to say that this committee, and I am a member of it, is deeply interested in this question, and if we look at it purely from an economic and business standpoint, as he has been arguing it so well here, I claim that this Congress has no right in this matter to pass this bill. On the other hand, if the New York Exchange is engaged in a gambling enterprise, and this is a moral question, such as the question in regard to the Louisiana lottery was, then we have some right. I would like to hear the gentleman on that point.

Mr. BURLESON. I want to be perfectly candid with the committee on that point. I will not say that the moral phase of this matter does not appeal to me, but I have not considered these moral phases in arriving at my conclusions nor do I make them the basis for my earnest insistence for the adoption of this measure. It is true, gentlemen, that the Federal Government passed a law that destroyed the Louisiana lottery, denying it the use of the telegraph and the telephone and the mails, solely because of its demoralizing effect on the people. It is true there is no one here who will say that there ever was a suicide that resulted because of the existence of the Louisiana lottery; there never was a bankruptcy brought about by the existence of that institution; there never was an embezzlement or a defalcation or a betrayal of trust by reason of the purchase of a dollar ticket in order to secure a chance for the capital prize in the New Orleans Lottery. It is true we can not say that with reference to the New Orleans Cotton Exchange.

Mr. BEALL. You mean the New York Cotton Exchange?

Mr. BURLESON. Well, the New Orleans Cotton Exchange or the New York Cotton Exchange, either; it makes no difference to me, because I am against them both. You can not say that with reference to these exchanges. But that phase of this matter has not controlled me in the least in the conclusions I have reached on my earnest insistence that this bill should become a law. I am opposed to these future-trading exchanges, because I believe they have become an incubus on the cotton trade. They are a great burden on the spinners and the producers of cotton in this country, who have a right to look to the Federal Government for relief after having done everything possible to relieve themselves. Their practices interfere with the freedom of trade between the cotton producer and consumer, obstructs and hinders trade between the cotton-producing States and cotton consumers, domestic and foreign. Mr. Chairman, we have passed laws in the Southern States driving the representatives of these exchanges from their confines; in every State with the exception of two. This action has, in a measure, curtailed their hurtful operations, but we have not been able to interfere with the interstate traffic in these future contracts. The Senate bill strikes at that evil. When the propaganda was inaugurated in the South against these exchanges, a seat on the New York Cotton Exchange was worth about $23,000, or in the neighborhood of that sum. As we passed laws excluding them from the States, thus diminishing the supply of "lambs," year by year the value of a seat on this exchange depreciated in value until the year 1908, and I have not looked into it since then, but I did look into it then, getting the information that a seat had gone down to $10,000. Mr. Chairman, I deplore the moral degradation caused by these exchanges; I regret the crimes and suicides traceable to specula-

ions thereon, but for the purposes of this discussion what I object o is the uneconomical practices of this exchange and the resulting bstructions and interferences with commerce and to think that these xchanges have the hardihood to contend that they are necessary ecause of the assistance they render the cotton trade. But I desire o return to a discussion of the fixed-difference system, the crux of his whole controversy. The fixing of the differences in September mounts to but little.

The CHAIRMAN. Before you start on that fixed-difference proposiion, let me make this suggestion, which I think will come in properly n connection with that discussion.

Mr. BURLESON. Yes, sir.

The CHAIRMAN. That one of the features of this whole controversy vhich I am sure interests every member of the committee, is the conention on the part of the representatives of the exchange that elimiation of the exchange would harass and hamper the whole cotton rade to the detriment of the producer, to the detriment of the merhant, and to the detriment of the spinner, for the reason that it vould compel all of them to transact their business on wider margins nd that it would force out of the trade the small man who would not ommand great capital. Before you close, I hope you will touch on hat point.

Mr. BURLESON. I will, Mr. Chairman, before I conclude. But let ne show you what the fixing of the differences under the rule of the New York Exchange involves. In November, before it is possible for uman wisdom to forecast the character of the crop——

The CHAIRMAN. In September, you mean?

Mr. BURLESON. No; the September fixing amounts to very little.

Mr. BEALL. Is it not a fact that in many instances, even since the September fixing was adopted, there is no action taken?

Mr. BURLESON. Frequently it happens that there is no action aken at the September meeting, sometimes only to reaffirm the ction taken at the last November meeting. They will not deny that. This practically means the fixing of the differences in value between hese grades of cotton only once during the year. Now, gentlemen, s such a thing possible, considered either economically or from a tandpoint of justice and fairness? How can these men making up he revision committee determine the character of the crop yet to be natured and gathered? Even if it were possible to eliminate selfshness on the part of the individual member entirely from consideration, how can this committee know whether the crop is to be of low or high grade, whether there are to be a small per cent of the igher grades or a large per cent? And these factors determine he value of the different grades. How can they tell what these lifferences in the value between the grades will be? They can not orecast the weather. And right on that point—I will return to a discussion of this—I want to tell you of a conversation I had with Col. John H. Inman, who in his time was the greatest spot-cotton nerchant in the world. On one occasion I met him, and in conversation the topic arose as to the real cause of gambling in cotton. I said "You have devoted your life to the cotton trade, and I want you to tell me this. Here are four textile fibers—silk, flax, wool, and cotton—out of which the raiment of the world is manufactured. Why is it that those who want to speculate select cotton, and cot-

ton alone, for that purpose?" He replied, "Mr. Burleson, it is easy of explanation; there are more elements of doubt and uncertainty entering into the making and marketing of a cotton crop than of any other crop in the world." He further said "Speculation thrives upon uncertainty, and for that reason speculators have seized upon cotton as the product with which they will gamble." Do you not see how convincing and satisfying this explanation is? And yet I have lived to see the time when Mr. Mandlebaum and Mr. Marsh come here and assert that there are more uncertainties, more different conditions, environing the wool trade and the manufacture of wool than the cotton trade. Gentlemen, just in a word I want to say to you, and I speak from an experience of twenty-odd years, cotton is a most uncertain crop to plant and the most difficult in the world to grow. In the first place it is dependent upon a proper season to bring up the seed after it is planted. If you do not get a proper season, and then plant at the proper time, the uncertainties of the weather are against you. Your seed may lie dormant in the earth and never come to the period of germination.

Mr. BEALL. Just as it did in my county this year.

Mr. BURLESON. Just as it did this year in Ellis County, the greatest cotton-producing county in the world. They produce more cotton in Mr. Beall's home county than in any other in the world; and yet Mr. Beall will tell you that the conditions were such this year that the cotton did not properly germinate in that county and from a practical standpoint did not germinate at all. That is not the only uncertainty the cotton planter must contend against. Cotton, to be successfully grown, must be planted during the early part of the year. There is the uncertainty of the effects of inclement weather. It is the tenderest plant in the world, as Mr. Neville knows and as these gentlemen know; the lightest frost destroys it. It is more tender than any pot plant grown in hothouse.

Mr. NEVILLE. And it is likewise the toughest plant in the world.

Mr. BURLESON. In a certain way, yes; when it reaches a certain stage of growth it is capable of great resistance, especially to heat.

Mr. NEVILLE. Yes.

Mr. BURLESON. I repeat, it is the tenderest plant in the world, and the most difficult to secure a proper stand. Are these the only uncertainties? Oh, no. After you have germinated your seed, escaped the frost, and secured your stand, gentlemen, I assert, and without fear of successful contradiction, as I speak from a store-house of sore experience, there are more creeping, crawling, flying, boring insects that prey upon cotton than upon any other plant ever tended by man. Now, after the uncertainties of weather, after all these insects are combated, after the Mexican boll weevil has preyed upon it, is it possible that you are going to deliver the producer of cotton over to the tender mercies of the worst pests of all, the bull and the bear? [Laughter.]

Mr. HEFLIN. The chairman asked you if the New York Cotton Exchange, or the speculative features of it, were abolished, would it not injure the three or four different classes of people that dealt in cotton—the producer, the spinner, and the mill man, and so forth?

Mr. BURLESON. I will come to that.

Mr. HEFLIN. Do you think that if the speculative features of the exchange should be abolished we would have spot cotton exchanges all over the South?

Mr. BURLESON. Undoubtedly. There are no dealings in futures on the cotton exchange at Bremen, and that is one of the greatest, most helpful exchanges in the world. Only one exchange in the cotton section deals in futures. And why this solicitude upon the part of these gentlemen from New York about the welfare of the cotton producer? The farmer is the man who produces and furnishes the cotton for everybody, and Mr. Neal, who spoke for all the farmers' organizations the other day, challenged the production of one resolution adopted by them which does not appeal for this legislation. But, gentlemen, this is a mere shaking of the bush. Let me go back to the fixed differences of the New York exchange.

Mr. MANDELBAUM. Before you leave that subject, I would like to ask you one question.

Mr. BURLESON. Yes.

Mr. MANDELBAUM. One is in regard to the fixing in November of these differences.

Mr. BURLESON. Yes.

Mr. MANDELBAUM. That is about the time that you and your farmer friends agree that the cotton has been gathered, fixed, and sold.

Mr. BURLESON. Oh, no. We do not so agree.

Mr. MANDELBAUM. Do you think it is possible on the 13th of November to form any opinion as to the character of the crop?

Mr. BURLESON. Not with any degree of certainty.

Mr. MANDELBAUM. I understood you to say so.

Mr. BURLESON. Oh, no. I said you could not tell. That is the burden of my——

Mr. MANDELBAUM. I said that you said that you could not tell.

Mr. BURLESON. That is what I say; you can not tell.

Mr. MANDELBAUM. You deny that the crop on the 13th of November could be ascertained to any degree of certainty as to the character?

Mr. BURLESON. I think not.

Mr. MANDELBAUM. Now, you said something about the riots in Manchester. I would like to know whether you would hold the New York Cotton Exchange responsible for the riots in Manchester?

Mr. BURLESON. Oh, no; I do not hold it responsible for anything it does not do. All I am trying to hold it for is what it actually does, and God knows if I can put upon its shoulders responsibility for that I will be satisfied——

Mr. MANDELBAUM. But why do you expect those riots in Manchester?

Mr. BURLESON. Oh, you say "riots?" I thought you said rises—in prices. [Great laughter.]

Mr. MANDELBAUM. Yes, riots. Why do you expect them in Manchester?

The CHAIRMAN. Pardon me; I do not think it is necessary to go into that. I can explain that in one minute to Mr. Mandelbaum—because I speak his language and Mr. Burleson does not—that Mr. Burleson's reference to the bread riot in Manchester was simply his rhetorical expression of his opinion that if they did not keep the spindles going in Manchester there would be riots.

Mr. MANDELBAUM. There is another thing I want to get at, why he expects those riots; why he thinks cotton is so high. That is the basis of those riots, or would be the basis of those riots.

Mr. BURLESON. The chairman says we are not to discuss it. Now, back to the fixed differences.

Mr. HEFLIN. Mr. Chairman, I rise to a parliamentary inquiry. Is Mr. Burleson making the closing argument in these hearings, and is it the fact that any interruptions and statements of fact must come in while he is speaking now?

Mr. BURLESON. I am perfectly willing to be interrupted.

The CHAIRMAN. Yes, but I think if we are going to bring these matters to a close to-night, we will have to let Mr. Burleson go ahead and finish his statement. He has said he was willing to be interrupted, but I think we had better let him finish without further interruption.

Mr. HEFLIN. My question is whether when he gets through anybody else may make any speech?

The CHAIRMAN. No speech. If there is anything that any gentleman wants to submit he will have that opportunity; but I hope Mr. Burleson will proceed with as little interruption as possible.

Mr. BURLESON. Now, Mr. Chairman, there is a limitation upon human wisdom. The wisest man makes mistakes. Even when self-interest is not involved, even when you eliminate entirely the element of self, we are liable to mistakes. Do you think it is right; do you think it is commercial in November to attempt to forecast the character of this important crop and fix the difference between grades? It is the only commercial body in the world, the New York Cotton Exchange—save the coffee exchange—that attempts this impossible task——

Mr. NEVILLE. And the —— exchange.

Mr. BURLESON (continuing). Which attempt, arbitrarily, by the action of a committee of 17 members, to annul the law of supply and demand. That is what it means. Not only do they assume the ability, in November, before the character of the crop can be forecast, to determine the character that the crop is going to ultimately develop into, but to also determine and fix the differences between the grades without knowledge of the proportion these grades will bear to the whole crop. When you consider the fact that New York's is the greatest cotton exchange in the world, as was said by Mr. Mandelbaum, when you consider the volume of transactions taking place on this exchange, so stupendous as compared to transactions taking place elsewhere that they exert a controlling influence on the trade; when these differences are fixed by this exchange out of line with their real commercial value, the value determined by the law of supply and demand, what a vehicle for wrong it becomes; what a great injury, Mr. Chairman and gentlemen of the committee, through this instrumentality is done to the five million helpless people who are engaged in the production of this staple. What a great wrong can be done to those who consume this cotton, and upon whose prosperity those who produce it must at last depend. And when they come before you practically wringing their hands—the consumers—and tell you that this uneconomical rule, this uncommercial rule of the New York Cotton Exchange, works to their hurt, will you not give ear to them?

A further suggestion, Mr. Chairman, and I proceed upon the assumption that the 17 members of the exchange on the revision

mmittee are going to do the very best they can. I am not going impugn the honesty of these men; not at all. But, gentlemen, hen you consider the fact that the men who have the power to fix ese differences are the large operators upon this exchange, when u consider that they are the men who are going to make or lose virtue of the character of differences that are fixed, how exceedgly dangerous this rule becomes; how indefensible it becomes. gain, gentlemen, suppose, as a matter of fact, that on this comittee of 17 there should find their way, year after year, the men ho are large spot buyers in the south; suppose, through the great fluence which they exert upon the membership of the exchange, it ould become possible for these large buyers of spot cotton to ntrol that revision committee; not only does it then become a ehicle through which great wrong can be done, but it becomes vehicle through which disaster itself may be brought to the entire tton trade. Now let us see just for a minute.

Mr. Cocks. What would be the result of having these differences xed by an impartial body?

Mr. Burleson. You mean just arbitrarily fixed, as they now fix em?

Mr. Cocks. Yes.

Mr. Burleson. It would be uneconomical, uncommercial, and inefensible.

Mr. Cocks. I mean arbitrarily fixed in January, say.

Mr. Burleson. That is utterly impossible. I say this because the ed for the crop will not then be in the ground. It is utterly imposble for any tribunal. Why, we have not had a prophet on earth nce the days of sacred history.

Mr. Cocks. When would be the time to have them fixed?

Mr. Burleson. Let them be fixed by the law of supply and demand, anging from time to time as values change.

Mr. Lever. Each day?

Mr. Burleson. Yes, let them be fixed each day.

Mr. Cocks. By whom?

Mr. Burleson. As the merchant offers his price or as the spinner fers his price for these products of the farmer, and an acceptance is ven by him, thus fixing these values.

Mr. Cocks. Then, as I understand that you emphasize so much xed differences, why not eliminate any differences as arbitrary? hat is what you want to do.

Mr. Burleson. They should be eliminated, so far as they are ught to be fixed arbitrarily. This power should not be vested in is revision committee or in any other committee upon earth. Now, resume. I was about to show you who goes on this revision comittee, how it is made up, but before I get to the question of who es on this committee I want to say this: We have heard here a great eal about the action of the revision committee of 1906. I used that ear myself in a speech that I made on the floor of the House, and ommissioner Smith used it because it was an abnormal year, and it centuated the situation; it made it stand up, so that the ordinary yman could understand the resulting wrongs and injustices. That the only reason we have used that year. We do not use it because is the only year when these differences have been fixed out of line

with their commercial value. Not at all. It is a frequent occurrence. I read from page 238 of the report of the Commission of Corporations:

These revisions of November, 1903, and November, 1906, and particularly the latter, are, in the opinion of some members of the cotton trade, only exaggerated instances of a more or less general policy on the part of revision committees of the New York Cotton Exchange to systematically manipulate differences in their own interests.

Now, I am not going to say that this is the case. It is not necessary for me to say that, although I will say, God spare us from being year after year subjected to the temptation of benefiting ourselves, where the opportunity is absolutely placed in our hands, where we are given the power to benefit ourselves, at the expense of our fellows. God deliver me from such temptation. I will not make this accusation, but suppose the large buyers of spot cotton, members of the exchange, could shape the action of the revision committee. What opportunities this would afford! Does it occur? (Continuing to read from pages 238 and 239 of the Smith report:)

The essence of this contention is that a clique of spot-cotton merchants in New York have for years controlled the revision committees of the exchange, and have through them established improper differences for the express purpose of reaping illegitimate gains. A member of the New York Cotton Exchange said in this connection:

"The money that has been made, particularly by ten or a dozen firms, in this market in the past ten years in consequence of these conditions has been very large, and in individual cases it has been extremely large."

This charge that spot-cotton merchants in the New York market have controlled revision committees of the exchange and have systematically established improper differences with the particular object of reaping illegitimate profits is almost impossible to prove, even if true. Owing to the very wide discretion allowed members of the revision committee—

What is that discretion? "Is there a standard by which you are governed, if you are fixing these differences?" I asked the leading member of this committee. "No standard." Absolutely no standard or rule to guide these men in this all-important work which they undertake. (Continues reading:)

Owing to the very wide discretion allowed members of the revision committee and the variety of factors that its members may take into consideration, it is virtually impossible to prove that members of any revision committee have deliberately abused their trust, even though circumstances may point very strongly to such a conclusion.

I suggested a moment ago. Suppose the great injury to the trade which could be wrought if the great firms dealing in spot cotton throughout the South could find their way upon this committee. If they have, what a vehicle of wrong and injustice it is possible for them to make of it. Let us see who gets on this committee. (Continues reading from the Smith report:)

It is a fact that the revision committees of the New York Cotton Exchange have for several years been selected from a limited group of members of the exchange, and mainly from so-called spot-cotton interests. For six years, beginning with 1901, nine such firms were constantly represented on the revision committee, and four other such firms had been so represented for five years.

For six years nine of the great spot cotton firms dealing with spot cotton in the South have controlled (because nine is a majority of seventeen) the action of this committee which fixes the differences in value between the grades of the product of five millions of people. I am going to embody in my remarks the list showing who they are. I will now read only three: George H. McFadden & Bro.; S. M.

Weld & Co., and Hubbard Brothers & Co. They are the three that lead the band. What can they do? They can so fix these differences as to shape the market price of the entire crop. I do not say these gentlemen do it; but, should they have such power? Why, gentlemen, talk about the poor little speculator about whom there has been so much talk before this committee, and, as you will recall, Mr. Marsh particularly discussed him, he is harmless compared with these others. Sometimes I fear we are not getting at the real vitals of this danger. Mr. Marsh spoke of the subsidiary broker, the little chap who scalps around day by day for the purpose of making a living, probably impecunious, with very little capital. What do they care for him? Nothing at all. It is the opportunity afforded these stronger men; it is the danger and menace of these great firms which fix the price of all cotton at last, under the operation of this rule; the price they pay to the producer for his product, and in the end the price that they will grind out of the spinner which concerns us. Now, am I mistaken about that?

Mr. Cocks. Do you not think they have let the price get up a little high lately?

Mr. Burleson. Yes; and, gentlemen, I want to say to you in that connection that when we inaugurated the campaign against the wire houses throughout the South, having long before destroyed the bucket shop, one of the stock arguments used against their suppression was that if we drove the wire houses from the South we would largely eliminate from the market the bull element (which is naturally found in the cotton section) and in consequence we would never have high prices again. As suggested by the gentleman from New York (Mr. Cocks) the price has been a little high lately—in fact, higher at one time in my opinion than is justified even by the fact that the crop is more than 2,000,000 bales short. The advance in price is largely attributable to the short supply, but not wholly, and I am just as much opposed to the manipulation of prices when it operates against the consumer as I am when it operates against the producer. I oppose the gambler putting up the price and likewise oppose his putting it down. By the way, during these hearings we have heard the bucket shop roundly denounced. I want to say here with full recollection of the fact that I am under oath, that so far as the bucket shop is concerned it does, in my opinion, infinitely less harm than the operations of the great exchanges. Now, why? I can tell it to you in a breath. The men who operate in the little bucket shops, put up their money; one wins and the other loses; the man who wins is the beneficiary, the man who loses is the sole sufferer; the only man affected by the transaction; nobody else is hurt.

But when these great spot operators go upon the floor of the exchange and milk the exchange—"milk the exchange"—now, gentlemen, I am not going to say what that means—they are the ones, gentlemen, who do the serious hurt to the producer and the consumer of cotton, these members of the exchange, within whose power it has been given, by reason of the fact that they know the character of cotton that is in the warehouses, by reason of the fact that they are engaged in the spot business and probably control the major portion of the certificated cotton in the exchange warehouses, these men who can go upon this exchange and when they see fit to do it "hammer the prices down;" they are the men whose actions bring serious hurt.

These injuries, as compared with those coming from the bucket shop, would be like comparing the misery, woe, and misfortune that comes from Monte Carlo, where they say there is an average of a suicide a month, to the effects coming from a couple of little pickaninnies shooting craps for pennies in a back alley.

Now I want to read a little further from Commissioner Smith's report. I do not want anyone to ask me what certain of these terms or expressions mean, because, as I told you, I understand the effect of the exchange rules, these uneconomical rules, upon the cotton trade as affecting both the producer and the consumer—I think I understand that—but there are certain phrases used in transactions which take place upon this great mart where merchants are engaged in business with which I am not familiar and which I can not elucidate for you if you ask questions about them.

Mr. MANDELBAUM. I think I have some questions that had better come in before you read that.

Mr. BURLESON. I am perfectly willing to be interrupted.

Mr. MANDELBAUM. I want to ask only one question, and I have to frame it a little, because I want to ask you only one question.

Mr. BURLESON. All right.

Mr. MANDELBAUM. You stated at first that the cotton exchange dealt only in spook and phantom cotton.

Mr. BURLESON. I will tell you what I will do——

Mr. MANDELBAUM. Wait, and let me ask my question, and then you answer it.

Mr. BURLESON. All right, if I can.

Mr. MANDELBAUM. After that you stated about the great wrong that is brought about in cotton or in the fixing of grades or valuing of grades. Of course the spook and phantom grades are not interested in that; and in fact, in accordance with your own conclusion, nobody is, because you stated that neither the producer nor the consumer trades on the New York Cotton Exchange. Now, if that be the case, they certainly do not pay the charges, either the one or the other, because neither of them trades there.

Mr. BURLESON. Mr. Mandelbaum——

Mr. MANDELBAUM. Wait a minute; there is something else in this. Then comes the question of the revision committee made by a lot of spot men. Now, I ask you in all fairness, by whom should they be made unless by the men who are familiar with the cotton? Do you want them made by the speculator or the gambler?

Mr. BURLESON. Oh, no.

Mr. MANDELBAUM. Then by whom do you want them made?

Mr. BURLESON. I am trying to show here that the way you make them——

Mr. MANDELBAUM. No; you said that the biggest spot dealers in the country make those differences. I will nail you down exactly to what you said.

Mr. BURLESON. Well, I stick to that statement.

Mr. MANDELBAUM. I nail you to it. Now, who should make the differences—the speculators and the gamblers?

Mr. BURLESON. That is not what I call them, but what you call them.

Mr. MANDELBAUM. The speculators and gamblers? Who under heaven should make them?

Mr. BURLESON. I can answer you in a word. I think they should be made in accordance with the law of supply and demand.

Mr. MANDELBAUM. By whom?

Mr. BURLESON. There are a dozen different ways they might be reached.

Mr. MANDELBAUM. By the gambler and speculator, or by whom?

Mr. BURLESON. By the way, since Mr. Mandelbaum has alluded to the gambler, I want to direct the attention of these gentlemen to the fact that the bill introduced by the chairman of this committee deals alone with the transaction where the seller does not expect to deliver and the buyer does not expect to receive. A transaction denounced by the Supreme Court as a gambling transaction.

Mr. MANDELBAUM. This is no answer to my question. You can go to that after you answer that question. Your oratory must stop somewhere. [Laughter.]

Mr. HEFLIN. Mr. Chairman, Mr. Mandelbaum said "Who in hell" should make these differences.

Mr. MANDELBAUM. I did not say "Who in hell."

Mr. NEVILLE. He said "Who under heaven." [Great laughter.]

Mr. HEFLIN. Oh, I beg your pardon.

Mr. MANDELBAUM. I said who under heaven should make them.

The CHAIRMAN. This is a serious matter, gentlemen.

Mr. HAUGEN. Have you any remedy to suggest?

Mr. BURLESON. Pass the Scott bill; it will remedy the evil.

Mr. HAUGEN. That has nothing to do with the revision.

Mr. BURLESON. Why?

Mr. HAUGEN. I understand this bill does away with the whole business, the whole transaction?

Mr. BURLESON. Oh, no. It is directed against only one character of transaction.

Mr. HAUGEN. Oh, yes, it does.

Mr. BURLESON. Well, if the New York Cotton Exchange people say that by the elimination of transactions which the Supreme Court of the United States has repeatedly held were gambling transactions their business will be destroyed, then I say it ought to be destroyed. I direct attention to the fact that the provisions of the Scott bill define one character of transaction, and is directed exclusively against such, "where the seller does not expect to deliver and where the buyer does not expect to receive." If no such transactions take place upon the cotton exchange in New York, then it can not be hurt. And I will get to the phantom cotton in a minute, if I am ever permitted to proceed.

And in passing I desire to say that the only way to fix these differences is to permit the law of supply and demand to fix them.

Mr. MANDELBAUM. Through whom?

Mr. BURLESON. For instance, it might be ascertained what the price of spot cotton was in half a dozen different markets, the real spot cotton markets in the South, and average them. That is one way it could be done. Or it could be done (and the only reason why the New York exchange can not do this is because they can not exist if they adopt the plan) by fixing differences day by day based on their spot sales, as they do in Liverpool. They can't do this because of a lack of spot sales.

Mr. HAUGEN. Or in New Orleans?

Mr. BURLESON. Yes; as they do in New Orleans.

Mr. MANDELBAUM. I want to state right here that the prices of the revision committee in the last few years have been exactly fixed by the ruling price of the markets of the South, and that the exchange has thriven under that system.

Mr. BURLESON. "When the devil was sick, the devil a monk would be; when the devil was well, a devil of a monk was he." [Laughter.]

Mr. MANDELBAUM. Would you have them quote the prices of all grades of cotton?

Mr. BURLESON. I desire to discuss that in a few minutes, and show you what grades of cotton are actually quoted in the spot market. I will do so before I conclude, but I would like to get along now; there are a number of matters I want to direct attention to, and if I am in error I want it pointed out.

Mr. COCKS. That seems to me one of the very important things, and I do not quite get it in my mind yet what it would be if we eliminate this fixed difference, how it could be provided for.

Mr. BURLESON. Fix them at what they actually are in the cotton markets, as they are fixed by the law of supply and demand.

Mr. COCKS. Fix it each day?

Mr. BURLESON. Yes, each day as at Liverpool and New Orleans.

Mr. COCKS. It would not be fair to fix it for a week or a month?

Mr. BURLESON. Who can anticipate market conditions that far ahead?

Mr. COCKS. You can average it, and cotton runs about such grades, and it seems to me you could do that. It is all Dutch to me, of course.

Mr. BURLESON. I understand that, Mr. Cocks.

The CHAIRMAN. I hope the gentlemen of the committee will allow Mr. Burleson to proceed.

Mr. BURLESON. This part of Commissioner Smith's report has some bearing on the matter of differences and I was about to read it when interrupted. I read from page 261 of the report:

In addition to the charge that the fixed-difference system of the New York Cotton Exchange has tended to attract mainly the surplus grades of cotton to that market, the further complaint is made that this stock has been used by large operators, in connection with the fixed-difference system, to systematically hammer the New York contract price. It has already been shown that the effect of differences which overvalue certain grades of cotton when delivered on contract is to depress the contract price. A striking illustration of this occurred in the New York market in November, 1906. It is charged that such sacrifice of contracts as took place at that time has occurred again and again on a smaller scale in the New York market as a result of improper difference in connection with an undesirable stock of deliverable cotton. The argument is that because the New York contract differences frequently overvalue certain grades, and because deliveries of cotton are usually so mixed as to be undesirable to the receiver, holders of contracts, even though they were aware of these conditions at the time they bought such contracts, nevertheless, when the date of delivery actually arrives, are unwilling to take up the cotton, but instead "run from notices;" that is, sell out their contracts when they receive notice of delivery from the seller.

The charge here outlined is substantially that large spot houses on the New York Cotton Exchange have taken advantage of the general character of the New York stock, and of the artificial differences established by the New York Cotton Exchange, to "milk" the market by tendering undesirable deliveries at false differences, thus inducing the buyers of such contracts to sell them out at a sacrifice. In this case, it is alleged, these same spot interests have purchased these contracts at the decline, thus making a profitable turn. It is alleged that spot merchants in the New York market have thus been able to keep in their possession a stock of cotton and to use it over and over again as a very effective weapon for clubbing the New York contract market.

Now, is that true? If that is true, will anyone say it is not a grievous wrong? Do I offer it as my ipse dixit? Why, no; I offered it as defined by Mr. Smith in this report. But suppose my friend here says he will not accept that?

Mr. MANDELBAUM. I do not want to say that, but I say, Did you yourself not find some fault with some of his conclusions?

Mr. BURLESON. I find fault with his conclusions. I agree with Mr. Marsh that the burden of marketing the crop does not fall on the speculator, but is borne by the producer and the consumer. I agree with Mr. Marsh on that, and not with Mr. Smith. I accord to Mr. Smith honesty in the conclusion that he reached, but I do not agree with him; just as Mr. Mandelbaum and I do not agree about many things. It is the viewpoint. But suppose there is somebody here who says, "Well, I will not take this disinterested government official; I decline to accept his statement." Then let me read you this:

In this connection one of the largest spot merchants in the New York market, who is also a member of the exchange, said——

Mr. MANDELBAUM. Who said?

Mr. BURLESON. Who is the member? Gentlemen, that is one of the mysteries I am unable to fathom. I receive letters from the members of the exchange denouncing the nefarious practices that they say exist there, and yet they are unwilling to come forward and speak before this committee. I could have explained about the yellow paper, but I will not, because I am not authorized to do so.

Mr. MCLAUGHLIN. But it is evidently somebody that Mr. Smith thinks worthy of being quoted.

Mr. BURLESON. Yes; and who, Mr. Smith says, is a large spot dealer and a member of the exchange.

Mr. MCLAUGHLIN. Or he would not have quoted him.

Mr. BURLESON. I so understand it.

Mr. MCLAUGHLIN. Let us see what he says.

Mr. BURLESON. Unless Mr. Smith is a liar, he is a large spot dealer and a member of the exchange. Are you not willing to take out of the mouths of these people themselves what they say about it; when the spinners themselves come here pleading that they be relieved of this great burden that has been placed upon them? He says:

In this connection one of the largest spot merchants in the New York market, who is also a member of the exchange, said: "There is no question but that there is a large amount of that (i. e., inferior cotton) here. These men who get control of a lot of contracts and want to weaken the market—that is, the spot brokers."

That is, the spot brokers want to weaken the market; these large spot dealers, nine of them, on the revision committee, who want to weaken the market before they buy—ought such power to rest with men who are buying the product of a helpless people, to weaken the market price and then buy? I want some man with a conscience to answer that question. Should this be permitted? Hear the further reading from this member of the exchange:

These men, who get control of a lot of contracts and want to weaken the market—that is, the spot brokers—do not want to handle and finance actual cotton. They will throw a lot of this stuff over which they have got to transfer to a different month or themselves finance it. This has been acting as a club, and I think it is one of the worst features of the exchange. A combination will get together a lot of this low-grade cotton, and before notice day there would be a high market and they would throw it right on the market, and of course it would force the market down—sometimes a half a cent.

Q. And then they take back their contracts?—A. Yes; and very often at a lower price and thereby make what is called a "turn." They might have sold short and they throw this low cotton on the market and lower the price a half a cent and then buy it in again.

Q. Has that been an extensive practice?—A. Right along.

Q. So that the same cotton has been sold again in this way a great many times?—A. Without question.

The CHAIRMAN. Let me interrupt you there to make a suggestion.

Mr. BURLESON. With pleasure.

The CHAIRMAN. I think the committee is quite willing to agree to a proposition which nobody would deny, that with fixed differences which did not represent actual commercial relations between grades, manipulation might be possible under which the market could be unfairly depressed or advanced.

Mr. BURLESON. It is undeniably true.

The CHAIRMAN. And the emphasis which you have laid upon the proposition I think might perhaps fairly warrant the conclusion that if this one wrong practice could be remedied, you might have no objections to the exchange?

Mr. BURLESON. Oh, no; there are many others.

The CHAIRMAN. And I think before you close it would be a good idea for you to bring up other reasons, if you have any other reasons.

Mr. BURLESON. I have. I think this is the most indefensible practice of the exchange under their rules. And I contend it can not correct it; that is the point I make. The New York Exchange can not abandon this system of fixed differences, because if it did it could not draw cotton to New York upon which to bank as a reserve; it must have a certain amount of actual cotton in New York or it can't operate. It can't draw this cotton there if it abandons its practice of overvaluing certain grades. That is the point that I make, and it can not be gotten away from.

Mr. BEALL. Bearing on the question of this quotation that Mr. Burleson has just read, I notice that it is in the form of question and answer. This statement must have been made in some investigation.

Mr. BURLESON. Yes, sir; an investigation by Mr. Herbert Knox Smith, and he put the questions and answers in this report so that you could get exactly at the meaning of the member of the exchange who was speaking.

The CHAIRMAN. Were the witnesses under oath?

Mr. BURLESON. I do not know whether they were or not; but they are a lot of reputable merchants who, when the suggestion was made that there might be transactions through the exchange where there was no expectation of delivery or receipt of the actual cotton, became much offended. Now I will proceed to other matters, although I have not exhausted this subject of fixed differences.

Mr. LEVER. I would like you, before you get away from that point, to answer this question. Why is it necessary to keep a reserve of cotton in New York?

Mr. BURLESON. Because they are bound to have a certain amount of cotton there to tender on these future contracts if the cotton should be demanded. And now, right on that point, how many bales on contracts are demanded? I want to be perfectly fair to the exchange about it; I want to take what they say about it themselves. On page 264 we find table No. 23, which is headed "Total tenders of cotton on contract in New York and contract deliveries in New

Orleans, crop years 1892–93 to 1906–7." These are the last data that I have on the subject at hand. This was in the year 1906–7, the year that we raised the 14,000,000-bale crop, the big crop; and when Mr. Neville was before you the question was asked how many bales were annually delivered on contract, and he said about 500,000. That does not mean 500,000 bales of cotton. Oh, no! I read from page 264, of the Smith report:

It may be noted that these large tenders of cotton at New York unquestionably mean that a considerable amount of cotton was retendered again and again, since for several years the total tenders at New York have greatly exceeded the total amount of cotton certificated by the inspection bureau of the New York Cotton Exchange.

Now, out of their own establishment comes this information, and surely they can not be heard to deny it.

Mr. Mandelbaum. Can you not include New Orleans, too?

Mr. Burleson. New Orleans is pitiful.

Mr. Mandelbaum. That is a spot market. I want you to read that, too.

Mr. Burleson. The New Orleans spot market is one thing, and the New Orleans Cotton Exchange dealing in future contracts is quite another. I hold no brief for the defense of the New Orleans Cotton Exchange. If it can not exist under the operation of the Scott bill, let it go out of business, and I hope it will.

Now, how many bales are handled on the New York Cotton Exchange on these contracts? That is an interesting question. We have had some difficulty in getting these figures. I want to show you, and I think I can, to your satisfaction, approximately how many there were.

Mr. Beall. This number that you have read is the number tendered, not the number delivered?

Mr. Burleson. No, sir.

Mr. Beall. Then, although the same bale might be delivered over and over, this is the total number tendered.

Mr. Mandelbaum. Delivered.

Mr. Beall. Well, is it?

Mr. Mandelbaum. Yes.

Mr. Beall. It does not mean actual delivery.

Mr. Burleson. I will read this which is handed to me by Mr. Beall, which is particularly apropos:

It should be emphasized that the figures given for the New York Exchange are not necessarily actual deliveries of cotton on contract, but the total of notices of delivery; in other words, the total does not mean that there was an actual transfer of ownership of cotton to the extent of the figures given.

Mr. Mandelbaum. That is absolutely wrong. I will state that under oath.

Mr. Burleson. I am perfectly willing to take it as Mr. Mandelbaum wants it.

The Chairman. There is no controversy over the proposition that an enormously greater number of bales are dealt in than are actually delivered. There is no question about that.

Mr. Mandelbaum. Yes.

Mr. Burleson. There is no question about that. We have had Mr. Hubbard, Mr. Neville, Mr. Mandelbaum, and Mr. Marsh before the committee, and we have struggled to find out how many bales are bought and sold, and I want to say in that connection that every

future transaction on the New York exchange exercises its influe ultimately upon the market price of cotton. I lay down that pro sition and do not think it can be refuted. The particular influe exerted by an isolated transaction may be imperceptible, but u mately this transaction enters into an aggregate which finally eit depresses the price or raises it. There can be no question about th The question is how many of these transactions take place.

Mr. COCKS. What would be the objection to that from an econo point of view?

Mr. BURLESON. It does not make any difference whether we obj to it or not. It is a law of trade.

Mr. COCKS. Whom does it hurt? That is what I mean.

Mr. BURLESON. If, under the rules and operations of the princip exchange, where these future contracts are dealt in, it exercises depressing influence upon the market price of spot cotton; it hur the producer. If it has the reverse result, it hurts the spinn Speaking for the producer, I want to say that he does not desire abnormal price, an unnatural price, or an artificial price for his co ton. All he wants is the price fixed by the legitimate law of supp and demand.

Mr. MANDELBAUM. One question, Mr. Burleson. According to yo explanation that you have given us, we depress the price if we deliv cotton and we do something wrong when we do not deliver it. No will you kindly point out what we should do?

Mr. BURLESON. Abandon your present practices.

Mr. BEALL. Turn from the evil of your ways.

Mr. BURLESON. Yes, turn from the evil of your ways. But, M Chairman, we are trying to get at how many bales of this spook co ton are annually bought and sold. I want to distinguish betwe the phantom cotton and the bales tendered on contracts, and I wi approximately arrive at the truth. Of course it rests with the gentlemen alone to tell us the real facts. They say they can not d it. Consequently we must enter upon a process of reasoning an get at the facts as best we can. We knew these annual sales unt they adopted the fixed difference system in 1897, but since then w do not know; but when that practice was adopted, undoubtedly, a admitted by everybody, it greatly stimulated speculation in cotto Now, how many bales were bought and sold the last year of which w have the record? But I will not take the last year. The last ye was not satisfactory to them, and that was the reason they adopte the fixed difference system; consequently it is not fair to take th last year. I am going to take the year before the last, and use figur the exchange itself has furnished.

Mr. SIMS. By "the last year" you mean——

Mr. BURLESON. The last year before the New York Exchang adopted the fixed difference system, in 1896. In 1896 there was total crop of 7,140,000 bales. That year, according to their ow admissions, they sold, for future delivery on the New York Cotto Exchange, 56,469,000 bales, with a crop of 7,140,000. The tot crop in 1906, speaking in round numbers, was practically doubled, o 14,000,000 bales. Remember that the adoption of the fixed differenc system greatly stimulated speculation. At the lowest, allowing fo no increase of speculation, we have 100,000,000 bales of future con tracts bought and sold on the exchange for that year. Am I no

rly justified in this estimate? Mr. Marsh was asked what was an linary day's transactions on the exchange. He said 350,000 bales.

Mr. BEALL. He said, in answer to Mr. Lever's question, that that uld be a normal day's transactions.

Mr. BURLESON. Three hundred and fifty thousand bales in one day. hat would be an active day, he was asked. He said 1,000,000 les would be an active day. Now, gentlemen, are we justified in is estimate? Are we not moderate when we fix its annual sales and rchases at 100,000,000 bales? Knock off 10,000,000 and say it is ,000,000 bales.

Mr. SIMS. May I ask you a question there right on that line?

Mr. BURLESON. Yes.

Mr. SIMS. I want to ask you if upon the average the entire certifi- ted stock in New York is not sold, in and out, every day of the year?

Mr. BURLESON. Yes, it usually has about 130,000 bales in its ware- uses—an ordinary day's sales is about 350,000 bales.

The CHAIRMAN. Let me suggest again that that is not the contro- rted point, and let us not spend any more time on it. It is 5 clock already. How soon can you complete your speech?

Mr. BURLESON. I have no set speech.

Mr. MANDELBAUM. I thought you were only going to speak for irty minutes.

Mr. HAUGEN. You stated that we had difficulty in finding out the ımber of bales bought and sold on the New York Cotton Exchange. think that you want to be fair. They were very candid in giving ıat information.

Mr. BURLESON. Yes; I said they could not give the aggregate. did not understand either one of them to give an aggregate. If he d, I beg his pardon.

Mr. HAUGEN. His statement was corroborated by the statement of r. Lever.

Mr. BURLESON. I am accepting his statement as to a normal day's ade, and I have based my calculation on it.

Mr. HAUGEN. I rather inferred from what you said that this infor- ation had been furnished reluctantly.

Mr. BURLESON. I say we have had some difficulty in getting at the nual sales. We have not gotten it at all. They have not given it us. I will not assign any reason for their failure to do so. Now, w many bales of cotton were hedged during the year? How many it possible for them to have hedged? Let us take the 90,000,000 les of futures, how many of this number was it possible for them to ve hedged? We spun in this country about 6,000,000 bales of tton. We all know, Mr. McCall says, that thousands of spinners not hedge at all. But for argument's sake, take every single bale at was used here, and eliminate the Liverpool Exchange and elimi- te the New Orleans Exchange, and say that it was all hedged in w York, this whole 6,000,000 bales that was consumed here in the ited States, that would give us only 12,000,000 bales hedged, 00,000 bales bought and 6,000,000 bales sold. Now take the ,000,000 bales of hedges from 90,000,000 bales of futures dealt in d it leaves 78,000,000 bales of phantom cotton dealt in. Now, n this conclusion be escaped? If so, I would like the error to be inted out by some one right now.

Mr. McLaughlin. Without expressing an opinion, suppose it was to be conceded that a very large part of the transactions on that exchange were speculations, that they were dealing in phantom cotton, that their transactions were merely a bet as to what quotations would be at a future day, just as we might bet on what the temperature would be on the 1st day of next July. What do you say to the proposition that the cotton exchange is necessary and does good as a protection to the producer and to the consumer of cotton, because the prices prevailing do bear some relation to the actual value as it might be determined by the supply and demand, and is practically the only means that the producer has of learning the prices and that he would be at the mercy of the spinner, and so on, if there were no such system; that the cotton exchange really serves a good purpose? Suppose it to be conceded that all you speak of is true, what do you say as to the good that is claimed for it?

Mr. Burleson. The only justification that they claim for it themselves is the protection it affords as a place for hedging, and I contend that according to their own figures, with the fluctuations that constantly take place and the wide margins that exist between the price of futures and the price of spots, that it really affords no hedge.

The Chairman. It appears that you will not be able to answer that question to-night.

Mr. Burleson. It will take quite an elaborate discussion to do that; but there is one other phase that I would like to present, and then I will stop.

Mr. Mandelbaum. One question about that phantom cotton. Suppose I sell a horse to Mr. Lever, and he sells it to the next gentleman, and the next gentleman sells it to the chairman, and the chairman sells it to Mr. Cocks. Are four of those horses phantom horses? [Laughter.]

Mr. Burleson. No, and I would not so claim.

Mr. Neil. The committee has given the other side a good deal of time on this proposition, and, if it is not trespassing upon the committee too much, I would ask that Mr. Burleson have time to-morrow to conclude his speech.

Mr. Burleson. I realize, Mr. Chairman, that the date set for hearing the representatives of the grain exchanges is to-morrow, but I want to discuss the hedging facilities of the New York Cotton Exchange, and I do not believe I can do it at this late hour with fairness to the committee or myself.

The Chairman. I believe the committee would like to have Mr. Burleson answer the question which has just been asked him. It is very true that we have heard the gentlemen representing the cotton exchange for the last five or six days, but it is only fair to state that the time has been pretty evenly divided, because they were engaged in answering questions which the members of the committee asked for the purpose of eliciting information, so that I think the time has been fairly divided, so far as that is concerned. But that is not the question. What the committee desires is to get information, no matter from whom it comes, and if there is not objection, I think it might be understood that Mr. Burleson will have some time to-morrow morning.

Mr. Burleson. If you will give me twenty minutes without interruption, I can finish what I have to present.

The CHAIRMAN. Suppose we have it understood that he shall have thirty minutes in the morning to conclude his remarks, and at the conclusion of his remarks there are a few questions that I desire to ask Mr. Marsh or some other gentleman, and perhaps other members of the committee will have questions they would like to ask, so that on the whole we will extend this hearing for an hour, and take that much time off the time of the grain men to-morrow morning.

Mr. BURLESON. Will you permit me to present one further matter at this time? It will take only a few minutes to do so.

Mr. Mandelbaum asked about phantom horses, and did it hurt anybody? Let us see whether such transactions hurt anybody. What are the effects of these transactions? Have I not read of the effects of manipulation by large spot buyers, members of the cotton exchange, who are also members of the revision committee? Have I not shown that they can hammer prices of futures down? If I have, then we are face to face with the question, Does the price of futures control the price of spots, or does the price of spots control the futures? as these gentlemen have so very earnestly contended here. I can show you in Commissioner Smith's report, where the statement is made that the prices of spots, if not controlled by futures, are largely influenced. This report says on this subject:

A fact of great importance in this discussion is that the prices paid by cotton merchants for a large part of the cotton crop are based directly upon the future quotations of some cotton exchange. It is imperative that this be kept clearly in mind. Such merchants send their buying agents directly to the large plantations, or to the small country towns where cotton is brought in from farms in wagonloads of a few bales each. Instead of instructing these agents to pay a flat price for cotton, such merchants usually direct them to make their purchases within a certain number of points "on" or "off" (above or below) some cotton-exchange quotations of futures. These points on or off are known as "limits."

I am not going to ask you to accept this statement. You heard Mr. Parker say that instruction coming from New York merchants, large spot operators, to buy spot cotton was usually to buy it, so many points on or off futures. I will not ask you to accept his statement. You heard Mr. Lathrop, in reply to a question, state that frequently orders came to him, "buy spot cotton, so many points on or off futures." I will not ask you to take his testimony. I think, however, I have the right to ask your acceptance of the testimony I now offer. One of the ablest and most earnest defenders of the New York exchange, who was in the thick of the fray at the time of the Hatch and the George bills, was the firm Latham, Alexander & Co. Mr. Latham and Mr. Alexander are both dead, but the firm is still conducted.

Mr. NEVILLE. No, it is not.

Mr. BURLESON. Well, if it is not conducted, there is some member of your exchange operating under their name.

The CHAIRMAN. That is an immaterial matter.

Mr. BURLESON. It is immaterial, for I hold in my hand a pamphlet defending the New York Exchange, which was mailed from one end of this country to the other last year, containing a discussion of this matter and prepared by Latham, Alexander & Co. This was issued and bears date March 16, 1908.

Mr. SIMS. Mr. Latham has only recently died.

Mr. BURLESON. I do not know when he died, but he was a member of the exchange at the time this statement was issued. He was put

forward to attack these bills, and when speeches were made two years ago attacking the exchanges the first document received by Members of Congress in defense of the New York Cotton Exchange was issued by Latham, Alexander & Co. I read from this defense of the exchange by one of its members:

If there were other exchanges throughout the United States dealing in cotton for future delivery, they would have to look to the controlling market, which is New York, for quotations.

That shows, first, just what I have contended all the time, that the New Orleans Cotton Exchange is completely overshadowed by the colossal New York affair, that it merely trails along in the wake of the New York concern. Now, let us see what else he says:

The price of cotton contracts—

Not spot cotton—but the price of cotton contracts, futures—

in New York oftentimes controls the price of cotton in the whole world, because this city is presumed to know more about the supply than any other, and our operations and dealings are therefore generally followed.

There you have it—the price of futures oftentimes controls the price of spot cotton throughout the world.

The issue is fairly raised, and bearing on it Mr. Parker tells you that futures exercise a controlling influence on spot, that merchants in the South buy spots so many points on or off futures. Mr. Latham says that that is frequently the practice. Commissioner Smith, in his report, says that futures exercise a psychological influence over—does not control absolutely but exercises great influence over—the price of spot cotton, and last we have Latham, Alexander & Co. in this defense of the New York Cotton Exchange, admitting that futures control the price of spots and not spots the price of futures.

Now, gentlemen, I am going to testify myself. Not once, not twice, but many times has this happened. I sell cotton in Waco, Tex., where I believe Mr. Neville has an agent. That is my market place. I do not sell it myself. The man who manages the plantation and is associated with me sells it. I have stood by his shoulder dozens of times and heard him ask the cotton buyer over the phone "What will you give for cotton this morning?" The answer would be, "I can not make you an offer because I have not heard from New York."

Mr. COCKS. Would not they make any price?

Mr. BURLESON. Oh, yes; but he knew that we are not fools; that we wanted approximately what the cotton was worth.

Mr. MANDELBAUM. You wanted what the cotton was worth?

Mr. BURLESON. Yes, we wanted the highest price we could get.

Mr. MANDELBAUM. You did not want to sell it for nothing?

Mr. COCKS. It seems to me that would apply to everything on earth.

Mr. BURLESON. Then you admit, you concede the proposition, that futures control the price of spots?

Mr. MANDELBAUM. So far as you are concerned, yes. You would not sell before you got that quotation.

Mr. COCKS. That is evidently true so far as you are concerned.

Mr. BURLESON. Not once, not twice, but hundreds of times has that happened, and my practice is not different from others. The cotton buyers would say "We can not give you the price, because we have not heard from the market;" and then when this information

would come, we would frequently be told "If you had called us up yesterday, we could have given you so many points more than we can this morning, because the market has declined to that extent."

Mr. COCKS. Would not that have been a stand off, then? What is the difference? If you had sold yesterday, somebody else would have been out.

Mr. BURLESON. It sometimes was a stand off to the extent of $2 a bale to me—$2 less, because futures in New York had declined.

Mr. COCKS. But if you had sold yesterday, you would have made $2 a bale.

Mr. HOWELL. What is to hinder you from taking out contracts with the actual consumer—the mill?

Mr. BURLESON. The trade conditions do not permit it.

Mr. HOWELL. Upon the actual demand?

Mr. BURLESON. The bulk of the cotton crop is made by small producers. There are very, very few men who make 100 bales of cotton, and mill owners buy in 100 or 500 bale lots. My colleague, Mr. Beall, represents, as I said a moment ago, the largest cotton-producing county in the world. I should like Mr. Beall to state approximately what per cent of farmers in his county make 100 bales of cotton.

Mr. BEALL. I should say not over 5 per cent; perhaps not more than 2 per cent.

Mr. HOWELL. You failed to state, when you said that you wanted to hear the price of cotton in New York, at Waco, that it was the price of futures.

Mr. BURLESON. Of course, that cotton buyer had instructions to buy within certain limits—so many points off or on the future price.

Mr. MANDELBAUM. You wanted to sell, did you not, and you would not sell until you got that price?

Mr. BURLESON. I wanted to sell and I wanted to get the best price I could. I must confess my profound astonishment when I heard even an attempt at denial of the proposition, not that futures absolutely controlled spots (because they do not), but that they exercise a controlling influence over the price of spots; and no candid, fair-minded man ought to deny it.

Mr. BEALL. On what was that bid on your cotton based?

Mr. BURLESON. It was based upon the price of future contracts in New York. There is no doubt about it that large spot dealers in New York and elsewhere send out instructions. I am able to state it. I have seen such instructions time and time again—instructions to buy cotton at so many points on or off futures.

Mr. COCKS. Suppose we admit that; I understand that. That is simple and plain. What I can not understand is how you are hurt any. Suppose spots are the basis, how are you hurt?

Mr. BURLESON. Under the operation of the rules of the New York Cotton Exchange one large operator on the exchange can depress the price of futures. I think I have shown it here. If I have not shown that, then I do not think that any proposition is susceptible of demonstration. I have shown it by Commissioner Smith's report, by spinners, by cotton merchants, and by the confessions of the members of the exchange.

Mr. COCKS. Probably you have, but my mental capacity has not been able to grasp it thoroughly. It seems to me you are only on

all fours with the man who has a carload of cattle and he calls up on the telephone and wants to know what the market is, and he ships to Kansas City and the market has dropped 2 or 3 cents while the cattle are on the way, and he loses that much. What is the difference?

Mr. BURLESON. One is operating in the actual cattle, and the price is offered for actual cattle by the man who is going to buy them cattle from him. In the other case the man who is selling the cotton is compelled to take a price for his spot cotton, for his actual cotton, that is influenced by the price of a future contract which has been fixed in New York, which has been manipulated, which may have been hammered down by the very man offering to buy the spot cotton.

Mr. COCKS. The shipper of the cattle believes that the price of his cattle is fixed by the beef trust.

Mr. BURLESON. Oh, well. I think there is no analogy between the two cases.

Mr. COCKS. I wanted to know what you think would happen if you had not a cotton exchange?

Mr. BURLESON. Then prices would be regulated by the law of supply and demand.

Mr. COCKS. Why does not the law of supply and demand regulate it now?

Mr. BURLESON. Because of these unnatural conditions which are brought about under the rules of the cotton exchanges dealing in futures.

Mr. COCKS. Why does not the same thing happen in regard to cattle?

Mr. BURLESON. Because they have no exchange on which cattle can be gambled in, as they gamble in cotton.

Mr. COCKS. But the trust affects that in the same way. Would it not be possible for the same thing to exist in the cotton market?

Mr. BURLESON. There is a different economic principle involved there, entirely. With the permission of the chairman, I will now suspend until to-morrow morning.

(At 5.30 o'clock p. m. the committee adjourned until to-morrow, Friday, February 18, 1910, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,
Friday, February 18, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott (chairman) presiding.

The CHAIRMAN. It was the expectation of the committee to take up this morning that phase of the pending bills relating particularly to the grain exchanges, and it is still our expectation to do that before the morning expires. But Representative Burleson, of Texas, who was addressing the committee yesterday, was unable to finish within the time allowed and it was agreed, before adjournment on yesterday, that he should proceed this morning for thirty minutes, and in order that he may have all of that time in which to present the matters which he regards of importance, the Chair will ask that he be not interrupted until he has concluded his statement. I will ask Mr. Burleson to proceed. He is to be called down in thirty minutes.

TESTIMONY OF HON. A. S. BURLESON—Continued.

Mr. BURLESON. Mr. Chairman and gentlemen of the committee, it is my purpose to confine myself this morning, in the main, to a discussion of two phases of the question now before you. First, as to the necessity for the existence of these exchanges for hedging purposes; second, what will be the result upon the cotton trade if we eliminate the speculative feature from these exchanges. But before I enter upon a discussion of those two questions, just for a minute or two, I want to answer one or two questions that were asked me yesterday, which, by reason of interruptions and diversions, I did not answer. One question was asked by the gentleman from Iowa, Mr. Haugen, and it was with reference to whether cotton carried in the reserve stock at New York was spinable or usuable cotton, and, if so, when one purchased that cotton where was the serious hurt to him?

Now, gentlemen, just in a word that can be answered. It has been shown here that during the entire period of the crop season of 1906 and 1907, and at frequent intervals since that time, there has been a lack of parity between the price of future contracts and spot cotton amounting sometimes from 80 to 196 points. This means from $4 to $10 a bale less for futures on the New York Cotton Exchange than the market price for spot cotton in the South. Now, if it were practicable for spinners of the East to go to New York and secure the actual cotton on these contracts wouldn't they jump at the chance to save that $4 to $10 a bale and, in addition, the freight charge from the South, which they could do if by going there they could get the cotton they want? Why, you know they would. And yet they do not do it because it is unsafe and dangerous for them to attempt an acceptance of the cotton tenderable on contract. Take the case of Representative Lovering, who recently died, who, with his brother, spun 200,000 bales a year; think a moment what a saving it would have been to him if he could have gone to New York and bought his cotton through the New York Cotton Exchange; by saving $4 a bale his savings would reach $800,000 or more each year, an amount probably greater than his entire profits for the year. I think this answers the question of the gentleman from Iowa. Representative Cocks, of New York, also said that he could not understand why, if there was an overvaluation of the high grades deliverable on the future contract, and the prices of spots were being influenced by reason of that overvaluation of the high grades, it would not be beneficial to the people of the South or the producers of cotton rather than hurtful to them. It should be kept in mind that the grades overvalued are deliverable by the seller, and the buyer if he accepts delivery must take these grades on the basis of their overvaluation.

Now, gentlemen, I can illustrate the effect of this. I went by Woodward & Lothrop's this morning and bought some cotton goods. A spinner is controlled in the character of cotton he buys by the use he intends to put it to; by the character of cotton goods he intends to manufacture. I hold in my hand two samples of cotton goods made from the very lowest grades of cotton, one worth 4 cents a yard, the other, I think, worth about 10 or 12 cents a yard [exhibiting pieces of cloth]. These goods are made from the low grades of cotton; the

spinners who make this character of stuff do not want the higher grades of cotton. It would be a useless expense to them to purchase the higher grades and use them. Now, suppose a spinner wanted low-grade cotton and the high grades of cotton had been overvalued by the revision committee of the New York Cotton Exchange, and he demanded delivery on a future contract (and, as Mr. Parker says, and as other spinners have said to you, the seller has the option and always gives you what you do not want), and they should give to this spinner who uses a low grade of cotton for the purpose of making this cheap cloth—they can manufacture a suit of clothes out of such cotton for a dollar and a half, an entire suit of clothes—and they tender to this spinner who manufactures this sort of material, the highest grade of cotton, which costs from $8 to $10 a bale more than the cotton which enters into the manufacture of this cheap cloth, he would promptly refuse to accept delivery and sell his contract at a loss. Can't you see how dangerous it would be for him to go to the exchange for the purpose of acquiring his stock of cotton, because if he acquired high-grade cotton to manufacture into this character of stuff he would suffer a great loss. If he accepts delivery, it might cost him $10 a bale more than he would pay if he bought the kind of cotton suitable for his purpose, and consequently he runs away from the notice of delivery; he promptly sells out his contract.

Keep in mind at all times this proposition, that one can not buy a future contract and expect to receive delivery of a particular grade of cotton. The contract sold is a basis contract, and the seller may deliver 15 or 20 or even 28 different grades of cotton on it, and one may expect an excess of the particular grades he can not use and does not want. A spinner who manufactures this cloth [exhibiting same], a fine grade of cotton cloth, could not use the grade of cotton used to make this cheap cloth. An entire suit of clothes out of this cheap cloth can be bought for $1.50, whereas the cloth (8 yards) for a woman's suit from this material would cost $16.

Mr. MANDELBAUM. Do you think you could make a suit out of that cloth for $1.50?

Mr. BURLESON. I bought a coat and pair of trousers for $1.50, in order to use while fishing, and they were made of this cheap material. Now, suppose a spinner who manufactures this kind of goods, the finest cotton cloth [exhibiting piece of goods to committee], bought a future contract and there should happen to be a cotton crop that was low in grade for the year, and he should go to the New York Cotton Exchange and demand delivery under his contract and should be tendered and receive the kind of cotton that goes into the manufacture of this cheapest of cotton goods [exhibiting cloth to committee], can't you see that it would be as worthless to him as wheat and straw? It would represent, especially if it were overvalued, as it always is when the crop is of low grade, as I showed you on yesterday, nearly a total loss to him. Thus you see that the tender of high grades may be ruinous to one spinner and the tender of low grades ruinous to another.

Yesterday Mr. Mandelbaum propounded a query to me. When I was discussing "spook" cotton, he asked, "If A sells a horse to B, and B sells the same horse to C, and C to D and D to E and E to F, would four of these horses be 'spook' horses? Do you recall that when Mr. Marsh was addressing the committee he said the intricacies

of the transactions upon the New York Exchange were such that it was difficult for the lay mind to comprehend them? I realize that the complexities of these exchange transactions might confuse some people, but I did not think they were such that even Mr. Mandelbaum would fail to comprehend them. Mr. Chairman, the horse illustration is not the character of transaction that takes place on the New York Cotton Exchange; they do not there sell a hundred bales of cotton to A and A to B and so on; they sell a future contract for the delivery of cotton, a different proposition altogether, a contract and a basis contract at that for the delivery of cotton. Now, I will also use a horse illustration of the exchange type.

Suppose a man who had a horse to sell heard that there was a horse exchange in the town and should carry his horse to the exchange to dispose of him. Arriving there he finds that on this exchange they are not selling horses but future contracts for the delivery of horses, and that these transactions were going to control the price he was to receive for his horse. Suppose he should see a future contract for the delivery of a horse sold for a given price, then another future contract for a horse at a lower price, and then another at a higher price, and somebody standing by, a member of the exchange, should say to him as these contracts were being sold and bought: "Now, the price of your horse has gone down, now it has gone up." And if you asked why, should answer, "Because these sale contracts for the delivery of horses that are taking place, actual contracts, where there is an expectation that delivery will take place, indicate the market value of your horse, in fact will control the price you are to receive for him. When he saw these transactions going on and on and on would it be surprising if he finally asked, "Where are all these horses? I don't see any horses that are being traded in under these contracts; where are the horses? I have seen dozens of sales, I have seen hundreds of contracts for horses sold, but I have not seen a horse." Would you blame him if he reached the conclusion that they were phantom horses that were being dealt in? Why, of course, you would not. Neither would you blame him if he objected to having the market price of his horse influenced or controlled by these transactions.

My friend Mr. Mandelbaum has become so involved in the complexities of the situation that he loses sight of the real transactions which take place on the cotton exchange. Keep in mind the fact that it is future contracts for the delivery of cotton that are being bought and sold on this exchange and not real cotton that is there being bought and sold. Remember, also, that these future contracts for the delivery of cotton are controlled by the law of supply and demand, just exactly as cotton is controlled by the law of supply and demand. If there is an excess of offers of the future contracts for the delivery of cotton, the price of contracts or futures goes down; if there is a scarcity of offers of contracts, then the price of futures goes up. By an excess of offers to sell contracts a combination may force a decline in futures at its will.

I address myself now to the hedging proposition. Mr. Chairman, the chief defense made, or the principal justification for the continued existence of the New York Cotton Exchange, is that it affords a protection to the spinner or a protection to the cotton merchant who sells the spinner his raw material when goods are being sold in advance of their manufacture by the spinner.

Now, what is it that makes a safe hedge? It has been made plain to you that where violent fluctuation takes place in the price of futures and the parity between the price of futures and the price of spots is not maintained, that when the margin becomes too wide an attempt at hedging becomes an added risk rather than a protection. For a future contract to be a protection as a hedge there must be maintained a certain parity, a uniform parity between the price of futures and the price of spots. Now, is this parity being maintained, or has it been for years, so as to afford a safe hedge? Let me read from Commissioner Smith's report, page 155, Volume I:

From the table it will be seen that in the period from 1880 to 1888, during which the commercial difference principle was employed by the New York Cotton Exchange, fluctuations in the margin between the price of spot cotton and the price of futures were confined to moderate limits. It was reasonably safe, then, during that period, for the merchant or spinner to go to the New York Cotton Exchange for the purpose of buying a contract hedge to relieve himself of the risk.

Now, it was about this time that the through bill of lading came into use and the exchange changed its practice of fixing differences, and what happened? I read further from the report:

In 1888 the New York Cotton Exchange, as already stated, abandoned its policy of frequent revisions and provided that its revision committee should meet only nine times a year (or monthly from September to April and again in June).

That was once a month during the active cotton season. Now, note the immediate effect of that change upon the price of contracts. I read further from Commissioner Smith's report:

It is worth noting that this change was almost immediately accompanied by a marked disturbance of the parity between the spot and the contract price.

They were making revisions of differences during that time once a month, nine times during the season, and conditions were growing worse. Finally, New York ceased to be a spot cotton market, and in 1897 the exchange abandoned the practice of fixing these differences once a month during the active cotton season and entered upon the policy of fixing the differences once a year. When first organized and until 1888, differences in value between grades were, by the rules of the exchange, fixed daily—kept in line with commercial differences—and the parity between the price of futures and spots was closely maintained. In 1888 the exchange changed its rules and differences were fixed once a month, being at such times brought in line with the commercial differences. This change brought about a marked disturbance of the parity between spots and futures. This practice continued until 1897 when again the exchange changed its rules and entered upon the policy of fixing differences practically only once a year, and that, too, at a time when the character of the crop could not possibly be known. The result could not be other than it is—the parity between the prices of futures and spots has, for commercial purposes, been completely destroyed.

Speaking of this last change Commissioner Smith in his report had this to say:

In the same year, 1897, the New York Cotton Exchange abandoned monthly meetings and provided that it should meet only twice a year, namely, in September and November, and this system has been in force ever since. This change has been followed by a very marked change in the relationship between the spot and the contract price. Since that period what has been the common result, or the continuous result, if I may so express it, of this system of fixed differences? I will read you further from this report: "From September, 1899, down to the present time, however, the margin

has, on the whole, been very much greater than in earlier years, and, what is far more important, it has fluctuated with much greater violence."

If this margin was maintained at a parity, even if it was slightly out of line with the commercial value of cotton—spot cotton in the South—merchants and spinners could take that into account, make allowance for it and protect themselves; but, gentlemen, when cotton fluctuates in this wise—I read from their own statistics for 1907:

Taking each month as I call them, from the time deliveries for that month were dealt in until the close of that month, the price fluctuated as follows: For September, from 11.18 cents per pound to 8.58. Remember, now, that this price is for the same grade of cotton. For October, from 11.30 cents to 8.69 cents per pound; November, from 11.70 to 8.85; December, 11.30 to 8.90; January, 11.31 to 8.99; February, 11.40 to 9.06; March, 11.48 to 9.02; and thus throughout the year, for July the highest being 13 cents and the lowest 9.35 cents per pound. Thus you see that these prices are either manipulated or the unrestrained speculation keeps the market price shifting round like a howling dervish.

Frequently since then, during certain months, futures have fluctuated violently, as much as 3 cents within a very short period. Recently the price of future contracts has fluctuated as much as 3 cents a pound in the month, and nearly always there is a fluctuation of from 2 to 3 cents in any future month for the delivery of cotton. When these violent fluctuations take place, pray tell me what becomes of this margin of safety which affords protection to merchant and spinner? Where is it found? As a matter of fact it is often so wide there is frequently such a wide variance between the price of future contracts and the price of spots, that no merchant and no spinner can, with safety, rely upon it as a hedge. It has ceased to be a protection either to the merchant or to the spinner, as was asserted here by Mr. Parker, and has, as a matter of fact, become an additional menace and danger. Now, let us see what Commissioner Smith says on that point. Page 157, speaking of this irregularity in the margin, he says: "This means that merchants using the market for hedging purposes have been more or less constantly subjected to a very serious risk."

What is the purpose of hedging? The purpose of hedging is to avoid risk, to escape the dangers occasioned by fluctuation in the price of cotton. And, by the way, I will say here that, in my deliberate judgment, these dangers, these fluctuations in prices are directly attributable to the operations of these exchanges. They bring about the very condition which makes it necessary for the merchant and the spinner to fly to them in a vain effort to protect themselves by hedging. A careful reading of this report will drive conviction home to the mind of any candid man, that fluctuations in the price of futures are directly attributable to the "subsidiary element" operating on the New York Cotton Exchange; that it is these violent fluctuations of from 2 to 3 cents a pound in the price of futures in each and every month, that makes it necessary for the cotton spinner and the cotton merchant to seek protection for themselves against it. Eliminate this danger by prohibiting these gambling contracts—and that is the sole purpose of the Scott bill—and you make it impossible for these violent fluctuations to be brought about. I did not read all that Commissioner Smith said on this subject.

Whereas, as so frequently emphasized, the purpose of hedging is to reduce or eliminate risk. It means, too, that the calulcations of speculators as to the movements of the contract price itself have been rendered more difficult and risks consequently increased.

Thus it is made plain that instead of hedging facilities being afforded, the New York Cotton Exchange or any other exchange, where the margin between the price of future contracts and the price of spots is constantly disturbed, and becomes so wide as to destroy the parity between them, instead of affording relief to the spinner or affording a safeguard for the merchant by eliminating risk, really increases such risk. Now, right on that point I want to read this morning excerpts from letters by spinners to show the views held by them on the protection afforded by a hedge on these exchanges.

I first submit a statement by Mr. A. W. Emery, of the Evansville Cotton Manufacturing Company of Indiana:

I believe the bill which you have introduced is just and right, and so far as our observation has been we consider the matter of dealing in futures in cotton to be detrimental to the manufacturer in every respect, as it is a form of gambling which misrepresents facts, and is harmful to anyone who is in any way connected with such doubtful methods of business.

Evidently this spinner would not attempt a hedge. I next read from Mr. T. L. Wainright, president of the Stonewall Cotton Mills of Mississippi:

Now, touching on the future business, will say that I have frequently had occasion to buy so-called futures or future contract cotton to cover actual future sales of cotton goods, but I am very sorry to have to say that we have always come out, with very few minor exceptions, with either the hot end of the poker or short end of the string in our hands. The methods of the New York Cotton Exchange are an outrage on the public. They do not afford the protection that is expected and held out. * * *

Again:

It is argued that if our American exchanges are suppressed or closed up that we transfer the market quotations, or, I should say, prices to Liverpool. This I deny.

Now, down to the real practical facts, which will be attested by every sensible cotton-mill manager. The trouble is, we and many others have recently and heretofore many times sold large quantities of cotton goods at profitable prices and have bought the spot cotton or futures as a hedge, then the gamblers get into the deal and depress the cotton markets from 1 to 3 or 4 cents per pound; then down goes cotton goods, the purchasers cancel their orders and leave the cotton mills with the high price future or spot cotton on their hands and their orders for the goods all canceled. We are in this fix to-day, and with a loss from this very cause on our hands that will amount to many thousands of dollars. I have gone through this experience before. The dethroned cotton kings, and many others of their stripe and class, are absolutely to blame for these terrible conditions. So, I must repeat, from a common sense and practical experience of a third of a century I am unalterably opposed to the bucket shop, and secondly to the swindling and unjust methods followed by the New York cotton exchanges, and, thirdly, to the general practice of the so-called cotton exchanges as relates to future cotton transactions. If the whole future business were swept off the map of cotton business I believe everybody would be far better off.

He says further that the bill under consideration covers his views and ideas exactly.

Now, one from Mr. E. S. Hobbs, of the Aurora Cotton Mills, of Illinois:

In the twenty-four years' operation of these mills, during which time I have been connected with the active management, we have not made use of the future markets as a means of protection against unforeseen fluctuations. We are opposed to the cotton exchanges as now conducted, because they serve no legitimate purposes of commerce. The statement that they do seems plausible to the unthinking mind, but really has no foundation in fact. The producer and consumer of cotton want stability of prices, the speculators and gamblers want rapid and violent fluctuations, and use all sorts of means honorable and otherwise to produce them. The inevitable result is that the honest producer and consumer are defrauded.

I have many such letters, but will content myself with submitting only one more. It is from Thomas Henry & Sons, of Philadelphia, Pa. In no uncertain terms do they speak:

We think if the present cotton exchanges could be wiped out of existence the people or concerns engaged in legitimate business of cotton manufacturing would be far better off in every particular than they are at present.

Owing to the enormous rises and falls that have taken place in the cotton market quotations for the past few years it is almost impossible to do business on a legitimate basis; but if, as above stated, the exchanges were out of existence, and the old rule made to apply—that is, to make the price of cotton according to the legitimate demand and supply—it would result to the mutual advantage of the producer and the consumer, meaning the cotton-mill man as well, and the ultimate extinction of the gambling element who use the cotton market as a dummy for their gain.

Again they say:

We sincerely trust you will be able to have laws passed through both Houses to overcome the gross evils of the present cotton market, which have existed for the past ten years, and thereby receive the everlasting gratitude of the law-abiding people who have millions of dollars invested in the manufacture of cotton fabrics.

In a letter from the same, of another date, they have this to say:

We as manufacturers to-day can not use anything in grade lower than good middling in our class of manufacture, and we question seriously whether at this moment there are 700 bales of good cotton in New York market.

Our weekly consumption of cotton is on the average 100 bales of strict good middling.

In our opinion, as we believe we stated in our last letter, we feel if there is any law existing permitting trading and selling future contracts (on paper), it should be wiped out for the benefit of the country at large.

You will note that this mill takes no grade of cotton lower than good middling, and that their weekly consumption calls on an average for 100 bales of strict good middling cotton.

I hold in my hand one of the warehouse certificates of exchange, which I submit:

NEW YORK COTTON EXCHANGE.

Grades of cotton in New York warehouses on September 30, 1907, inspected, classed, certificated, and grade guaranteed by the New York Cotton Exchange (with differences on or off Middling):

No. of bales.	Grade.	Cents.	
—	Fair	1.75	on
—	Strict Middling Fair	1.50	on
—	Middling Fair	1.25	on
7	Barely Middling Fair	1.00	on
15	Strict Good Middling	.75	on
1	Fully Good Middling	.62	on
20	Good Middling	.50	on
23	Barely Good Middling	.37	on
116	Strict Middling	.25	on
375	Middling	Basis.	
2,212	Strict Low Middling	.30	off
8,857	Fully Low Middling	.65	off
22,782	Low Middling	1.00	off
30,848	Barely Low Middling	1.25	off
27,554	Strict Good Ordinary	1.50	off
9,318	Fully Good Ordinary	1.75	off
6,772	Good Ordinary	2.00	off
45	Strict Good Middling Tinged	.35	on
146	Good Middling Tinged	Value of Mid.	
386	Strict Middling Tinged	.20	off
2,026	Middling Tinged	.30	off
8,476	Strict Low Middling Tinged	1.00	off
8,967	Low Middling Tinged	1.50	off

No. of bales.	Grade.	Cents.	
3,190	Strict Good Ordinary Tinged	2.00	off
2,261	Fully Middling Stained	1.00	off
2,028	Middling Stained	1.25	off
477	Barely Middling Stained	1.75	off
1,012	Strict Low Middling Stained	2.25	off
26	Fully Low Middling Stained	2.62	off
544	Low Middling Stained	3.00	off

Total, 138,484

There can be no revision until November 20, 1907.

GEORGE BRENNECKE,
Chairman Warehouse and Delivery Committee.

Suppose Henry & Sons had bought future contracts and accepted delivery of every bale of cotton in the stock at that time—the entire 138,484 bales, they would not have gotten sufficient strict good middling and up (22 bales) to keep their mill in operation for two days. They would have secured in all this lot of cotton only 43 bales which they could use. What folly! How dangerous it would be for them to attempt to secure their stock of raw material through this exchange.

These spinners all agree that, instead of the New York Cotton Exchange being a place of refuge for them against fluctuation in the price of cotton, it has become an additional menace to their business.

Now, I will go on. Yesterday the gentleman from New York asked where one could go to ascertain the difference between grades. I then replied, to spot-cotton markets in the South. In order to further answer Mr. Cock's question I want to read what the president of the New York Cotton Exchange said about the revision of 1906 and where he suggested we go to ascertain these differences. On page 164 of the report I find this statement made by the president of the exchange: "Probably the best markets to be governed by in the actual differences are Houston and Galveston," because they are the great spot-cotton markets. The other day Mr. Neville introduced Mr. Barbot to prove that there are what is known as quarter grades, clearly distinguishable from others. He spoke also of tinges and stains, his purpose being to show that it was necessary to have this wide range of 28 grades deliverable upon future contracts. I hold in my hands the Galveston News. I want to show that so far as the cotton trade is concerned these microscopic grades are never considered. You must always keep in mind the fact that when those who consume cotton want actual cotton they go or send to the spot markets in the South for it. There the cotton is bought, assembled, and assorted as to grades, and for the purposes of the trade there are only about seven grades of cotton considered. These other barely definable grades only serve to aid manipulation and stimulate speculation.

In Galveston, Tex., the trade requires quotations of prices for low ordinary, ordinary, good ordinary, low middling, middling, good middling, and middling fair, 7 grades, the same in Houston, the same in New Orleans, the same wherever actual cotton is dealt in; even the New York quotations that are telegraphed down to the spot markets reflect only information with reference to the value of these seven grades. This is shown by the News, the leading paper in the leading spot market, and yet the contention is made that 28 different grades should be deliverable upon future contracts, when the spot market takes no account of more than seven, and it is the spot market at last

where the spinner goes to get his cotton. The wide range of grade deliveries are useful only for purposes of manipulation and serve as an additional means of depressing or inflating prices. Now, one other phase of the question and I will conclude. What will be the result if the Scott bill is enacted into law and these purely speculative transactions are eliminated? Will it result in the destruction of the exchanges, and if so, what will follow? I will say that if a condition has developed on the New York Cotton Exchange that makes it necessary to continue transactions, 90 per cent of which are pure gambling, in order that it may exist, then it ought to be our desire to bring about a change regardless of what the consequences might be.

Mr. Chairman, I do not subscribe to the proposition that if this bill is passed the field of speculative operations will be transferred to Liverpool and the producer placed at the mercy of the English spinner. Representative Hardwick will, before this hearing is concluded, present several amendments to the Scott bill, having for their purpose the making it impossible for the Liverpool exchange to be made the basis of these operations. If gambling in cotton was prevented in this country would the Liverpool exchange continue to deal in futures? I have from the lips of the oldest living member of the New York Cotton Exchange, made to me in the presence of William C. Lovering—and I made this statement during the lifetime of Mr. Lovering, and did not wait until his death—Mr. Walter T. Miller, one of the men who organized the exchange, helped construct its present building, when I put the direct question to him as to what would be the effect upon the Liverpool exchange if we eliminated these speculative transactions upon the New York Cotton Exchange, this reply:

> Mr. Burleson, it would be compelled to at once abandon the practice of dealing in such contracts because the principal source of their patronage is from this country.

Destroy this gambling and I believe the cotton exchanges of this country would at once become like the exchange at Bremen, an exchange where spot cotton is dealt in. I do not believe any serious trade disturbance would result, regardless of the effect this bill, if law, might have on the two big exchanges. I would not be candid, however, if I did not express my belief that there would be necessary some readjustment of trade conditions. There would be. But the intelligent producers and consumers of this country will readily devise a new system to meet the situation. Already it is in progress. The construction of a system of warehouses throughout the South has been inaugurated, where cotton can be stored and where spinners can come in direct contact, not with the producer himself, because he would not be there, but they would come in contact with the middleman. This system will not eliminate the middleman, it would not eliminate Mr. Neville as a spot merchant, not at all; it will eliminate Mr. Neville in a way as a speculator—I would not say gambler—it will eliminate Mr. Hubbard as such a speculator. These gentlemen could have their agents at the places where warehouses are located representing them, the spinning interests would be represented, and the producers' interests would also be represented, all interests represented, all there to find the cotton they need in lots of even running grades just as they desire it without all this stupendous burden of expense. I do not believe and can not see one single reason why cotton should under this system be bought or sold

under a wider margin by those who aid in marketing the crop. It was suggested three years ago by Mr. James R. MacColl, the president of the New England Spinners' Association, that—

The New York Cotton Exchange has become so useless to us that we must devise for ourselves a place where we can go and have spot cotton find its way there and supply our needs.

He suggested that in an address to the spinners themselves. Acting upon that, the intelligent producers of the South, for a number of years, have been erecting these warehouses and they are nearly prepared to meet the situation which will be presented if this bill should become a law.

Mr. LEVER. How many in the South do you happen to know?

Mr. BURLESON. I believe it has been stated that there are some two thousand cotton warehouses there now. In this connection I will state that Mr. Haines, the secretary of the Galveston Chamber of Commerce, recently told me that capital could be readily enlisted to erect the necessary warehouses at Galveston to meet the demand, not only of Texas, but of the entire cotton territory tributary to that city, affording warehouse facilities, so that the cotton finding its way into those warehouses could readily find its way across the ocean, if needed for export purposes, or around to New England spinners, if needed by them, or the southern spinners. You need have no apprehension or fear that there is going to be any serious disturbance, any irremediable injury to the cotton trade, if this bill is enacted into law. And, gentlemen, one word more; whether this is so or not, who will be the sufferers if disturbance is occasioned, who will be the only sufferers? The producers upon the one hand and the spinners upon the other. They stand here, so far as this record is concerned, united in the expression of a desire that the Scott bill be passed and this great incubus be removed. If they are willing to take the risk and stand here to say to you that they are willing to take the risk, why should there be a single conscientious man upon this committee who would hesitate to act?

Mr. LEVER. Mr. Burleson, do you think there is any danger of the formation of a great cotton trust throughout the country which would control the price of cotton and put the farmer at the mercy of the trust?

Mr. BURLESON. The suggestion—pardon me, if I indulge in strong language—the suggestion is absurd, for the reason that the American spinner is not the only consumer of American cotton; he has an active competitor upon the European Continent, an active competitor in Great Britain; no combination that could be entered into could possibly control this situation.

Mr. LEVER. You think the suggestion is radical?

Mr. BURLESON. It is ridiculous.

The CHAIRMAN. I believe under the arrangement entered into yesterday the representatives of the New York Cotton Exchange are to be given thirty minutes, if they desire to present any additional matter.

Mr. MANDELBAUM. Mr. Chairman, I would like to ask Mr. Burleson some questions in regard to these samples; but before asking him I must say that I am unable to discuss this matter in the flights of oratory that he has employed in it; nor do I consider it necessary;

I desire to express myself in the plainest words so that everybody can understand them, having absolutely no reasons why my constituents in Texas or anywhere else should read them. Now, he has come before you with the statement that these goods are made out of trash cotton [exhibiting goods to committee] known as denims. Now, if he knows as much about the entire question as he knows about this material, he knows absolutely nothing about it. When it is possible to get them nothing but strict low middling to strict middling cotton go into the manufacture of denims. He wants to make you believe that this material here [exhibiting material] costs $16, when $1.60 would be a great deal nearer the price than $16.

Mr. BURLESON. Well, Woodward & Lothrop's clerk gave me those prices this morning; he told me it was worth $2 a yard.

Mr. MANDELBAUM. Did Mr. Lothrop tell you that it was worth $2 a yard?

Mr. BURLESON. Yes; $2 a yard.

Mr. LEVER. Will you testify that that is not a fact, the statement that Mr. Burleson has made?

Mr. MANDELBAUM. That this costs $2 a yard? Yes, sir; I testify that as a fact.

Mr. BEALL. What will you testify that it is worth?

Mr. MANDELBAUM. Well, that is a kind of lace lawn that is made for ladies' wear.

Mr. LEVER. What is it worth a yard?

Mr. MANDELBAUM. Well, I couldn't tell you exactly; it is so long since I dealt in the goods, but it is certainly a great deal less than $2.

The CHAIRMAN. If Mr. Burleson testifies that he paid that price this morning for those goods, paid at the rate of $2 a yard, you wouldn't contradict it, I suppose?

Mr. MANDELBAUM. I didn't understand that Mr. Burleson so testified, that he paid $2 for those. If he does, I shall take a different course. Do you testify that?

Mr. BURLESON. I certainly do; an eighth of a yard for 38 cents. I have the checks here and ask that they be made a part of the record. Here is the bill: For the denim, one-third of a yard, 5 cents; for 1 yard of cheese cloth, 4 cents; for one-eighth of a yard of the cloth in question, 38 cents; and one-eighth of a yard of madras, 4 cents. I offer these bills in evidence.

Mr. MANDELBAUM. That doesn't make the price of these goods. How much did you pay for this [exhibiting piece of goods]?

Mr. BURLESON. I found that after making these purchases. After they were through wrapping up my purchases the clerk said, "Here is a very fine piece of stuff made of high-grade white cotton." I said, "Cut the same quantity off," and he said, "I will give you that." I did not ask him the price of it. I wanted to show by that the character of stuff that is made out of the high-grade cotton.

Mr. MANDELBAUM. Have you any idea how many bales of cotton are consumed in that class of goods?

Mr. BURLESON. I have no idea on earth.

Mr. MANDELBAUM. Or how many bales of cotton on this class of goods [exhibiting goods]?

Mr. BURLESON. I should suppose the great bulk of it goes into the low grade of stuff.

Mr. MANDELBAUM. And the low grade of stuff ought to be in greater demand than the higher grades?

Mr. BURLESON. Undoubtedly it is.

Mr. MANDELBAUM. According to you, this is the cotton that pulls down the price of cotton?

Mr. BURLESON. It is the same principle as that of the New York Cotton Exchange. The thing that pulls down the price of future contracts is overvaluation of the higher grades in a high-grade year, or overvaluation in the low grades in a low-grade year; and I will ask you is not that a fact?

Mr. MANDELBAUM. No.

Mr. BURLESON. You say that is not a fact?

Mr. MANDELBAUM. No

Mr. BURLESON. I believe when the grade of the crop is high the New York Cotton Exchange overvalues the high grades, and when it is low they overvalue the low grades, and thus it is that they are able to depress the price of the basis contract.

Mr. MANDELBAUM. If it is in such great demand and the goods can be sold at such an exorbitant price as you say here, wouldn't it be right that they pay a fair price for those fine cottons of which there is only a very limited supply in any crop?

Mr. BURLESON. They pay from eight to ten dollars a bale more for the cotton that goes into that finer grade of cotton cloth than they do for the cotton that goes into the other.

Mr. MANDELBAUM. Do you know what grade of cotton goes into this piece of fabric [exhibiting cloth]?

Mr. BURLESON. I don't know.

Mr. MANDELBAUM. I mean, do you know whether it is American cotton, India cotton, or what kind of cotton?

Mr. BURLESON. I don't know whether it is American or India cotton, and that does not make any difference, because every bale of cotton in the world affects the price of every other bale of cotton.

Mr. MANDELBAUM. Would it make any difference to you if I said it was made of Egyptian cotton?

Mr. BURLESON. It wouldn't make the slightest difference, so far as that is concerned.

Mr. MANDELBAUM. I do not want to detain this committee, as you have given us so much time, and I will only say a word or two. However, I want to point out that the source of Mr. Burleson's information, that which he used as a basis for his argument to-day, was received from a dead man. Now, Mr. Lovering appeared before the exchange and had at that time absolutely nothing against the exchange except that he found fault that the round bale was not deliverable, of which he was a receiver, and I believe it was made clear to him that it was impossible to make that round bale deliverable, as there was no demand for the round bale. He worked upon us for over a week, almost, both here and in New York, to get the round bale deliverable on the exchange, and use our influence to make it equally deliverable on the cotton exchange in New Orleans. I would like, with your permission, Mr. Chairman, to put in an extract from Shepperson's Cotton Facts, and particularly page VII, which shows the amount of cotton handled in New York and the amount of cotton handled and shipped through the port of New York,

and we do this not so much for our sake as not to deprive the great city of New York of its geographical position, which Mr. Burleson tried so hard yesterday to deprive it of.

Season of—	Total receipts.	Exports.	Sales of spot cotton.	Actually delivered on "futures" contracts.
	Bales.	*Bales.*	*Bales.*	*Bales.*
1900-1901	1,251,000	633,000	91,774	375,400
1901-2	1,207,000	687,000	114,093	397,300
1902-3	1,213,000	492,000	122,813	600,000
1903-4	1,171,000	494,000	244,726	283,500
1904-5	1,439,000	659,000	104,086	445,800
1905-6	1,263,000	514,000	225,555	478,500
1906-7	1,413,000	480,000	118,265	459,600
1907-8	1,059,000	619,000	121,035	401,200
1908-9	1,352,000	454,000	242,805	506,800

Now, the only thing that has been brought out that needs an answer is that warehouse business. It appears to us, and it must have appeared so to you, that there is a question as to why they are building those warehouses in the South; are they building them to benefit those people down there or are they building them to get a big remuneration from them? I know of one man in Norfolk, who was the originator, I believe, of building the southern warehouses, who has made some two million dollars out of building them, and storing cotton, in practically a very short time; I do not think it is more than five or six years, and I think that has imbued parties in the other sections of the South to do the same thing, and that, I think, is the kernel of the whole matter. For instance, you take the statement made by Mr. Neill, that the storage at Galveston costs $1 a bale for the first month and 20, 25, and 30 cents thereafter, and contrast it with the fact that in New York City the storage of cotton costs only 20 cents; and you must take into consideration the difference in the land values, the real estate values, between those sections where those warehouses are built in the South and the extreme value of real estate in New York; if you take all those things into consideration I think that warehouse innovation will become patent to you.

As I said before, I do not wish to detain you, I do not want to make any other remarks. We have not come here as politicians and we have not come here as lobbyists; we have not seen any Congressmen, we have not tried to influence anybody; we have not asked even the Congressmen of our own State—I have not even asked Mr. Bennet, who is the Congressman of my district, and a friend of mine, as to what his position is in the matter. We have tried to bring this matter before you in an impartial way by stating facts; we have put facts upon the record at these hearings, and, gentlemen, we are willing to stand or to fall by our record. I thank you.

Mr. Lever. I have a suggestion to make. Inasmuch as the report of the Commissioner of Corporations has been attacked by the gentlemen representing the exchange, both as to its facts and its conclusions, it seems to me that in justice to this committee and for the further enlightenment of it, and in justice to the gentleman who wrote this report, that the committee ought to afford those men and the Commissioner of Corporations an opportunity to appear before the committee. I think the committee would do itself justice to

invite the commissioner to appear before the committee and give the gentlemen representing the exchange an opportunity to cross-examine him. I only make it as a suggestion, and if there seems to be any objection I will make it as a motion, that we have the commissioner, or somebody representing him, appear before the committee at such time as may be deemed necessary.

The CHAIRMAN. The suggestion seems entirely fair, and unless there are objections, it will be taken as the sense of the committee and a time will be fixed at a later date for hearing the commissioner or some one representing him.

Mr. COCKS. I would like to ask if either side here has any figures showing the fluctuation in prices in the wool crop during any one season, and also as to the cost of handling the wool clip as compared to handling the cotton crop. Those points have been referred to many times during the discussion, and I would like to know if some of these people, some one present, has anything which may show the fluctuations in the wool crop and the cost of handling the same.

Mr. MANDELBAUM. If you want me to state one instance, I can do so. In January, 1879, I bought three-fourths of the wool clips in a town in Texas when all the wool was still on the backs of the sheep; they had not been shorn as yet—in other words, not clipped; and the price paid at that time was 11½ to 13½ cents. And Mr. Lynch was at that time the great wool oracle of New York, and men looked upon his reports as having authority; he wrote a weekly circular on wool, and he telegraphed down to some of his friends, among whom was a large wool raiser by the name of Raymond Martin, to be sure and exact a large advance on the purchase which I was making; that very Martin wool was sold to the same identical Mr. Lynch in March at 26½ cents a pound; in other words, wool increased in value from the 15th of February to the 1st of April 125 per cent.

Mr. COCKS. The same year?

Mr. MANDELBAUM. The same year, and I more than doubled my money on that wool, and it was not more than two years afterwards that I lost every dollar that I possessed in wool. I know what I am talking about; I court the fullest investigation of this question.

Mr. BURLESON. In response to the suggestion of Mr. Cocks I have no such information, and, of course, it would not be safe for the committee to act upon the isolated transaction had by Mr. Mandelbaum in 1879. If you will send to the Congressional Library and get copies of the Financial Chronicle you will find the quotations of the market price of wool, and they are, I believe, also given in the summary of statistics provided by the Department of Commerce and Labor.

Mr. CHAPMAN. I do not know that I understood Mr. Burleson correctly about these warehouses, and I would like to ask him if these storehouses and the storing of cotton are under the supervision of the state law of your State?

Mr. BURLESON. Not yet.

Mr. CHAPMAN. Are there any inspectors or other persons who vouch for the quality of the cotton deposited in those warehouses?

Mr. BURLESON. The uniform standard of classification law has not gone into active operation as yet, Mr. Chapman, but I hope it will

be adopted by all exchanges at the beginning of the next cotton season. A movement is already on foot, so far as the State of Texas is concerned, to have state legislation regulating all these matters, and these warehouses that have been erected have been erected by farmers for the purpose of protecting their cotton from damage until it can be safely marketed and ultimately, in the evolution of the cotton trade, the warehouse plan is what is going to come about.

Mr. CHAPMAN. Are certificates now issued by these warehouses?

Mr. BURLESON. In some places they are. In Taylor, Tex., in my district, the keeper of the warehouse, who is an expert cotton classifier, classifies every bale of cotton entering the warehouse, and the certificate shows what the classification is; and he has already written to the Department of Agriculture for the government standard, and intends to adopt it so soon as it has been furnished to him.

Mr. BEALL. Every bale is subjected to classification?

Mr. BURLESON. Yes, sir.

Mr. CHAPMAN. However, at present, those are local warehouses for the storing and keeping of cotton, without any regulation by law?

Mr. BURLESON. None, so far as I understand it.

Mr. HAUGEN. Are these certificates accepted by merchants and others?

Mr. BURLESON. Yes, sir; they are accepted by the merchants who buy cotton. Mr. T. W. Marse, of Taylor, Tex.—and Taylor is in Williamson County, which was for years, until the advent of the boll weevil, the largest cotton-growing county in the country, but now Ellis County is the largest cotton-growing county—Mr. Marse, who is one of the largest merchants in the town of Taylor, accepts these certificates and advances money upon the certificates to the farmers who have placed their cotton in the warehouse.

Mr. HAUGEN. To what extent is money advanced?

Mr. BURLESON. That depends on the fluctuations of the New York Cotton Exchange; when there is a violent fluctuation taking place the merchant or banker won't give the farmer as much as he would if these fluctuations were not taking place. It depends upon the market value of the cotton.

Mr. HAUGEN. And is generally about 50 or 75 per cent, or about that?

Mr. BURLESON. I don't know.

Mr. NEILL. I would like to state that this year he could draw from $50 to $60 a bale, and the majority of our warehouses in Texas are chartered under the state law; they are corporations under the laws of Texas.

Mr. DICKSON, of Mississippi. Mr. Chairman, there are 65 or 70 cotton warehouses distributed throughout my State for the housing of cotton, and arrangements are made with local bankers and with others for loans thereon of from 75 per cent to 80 per cent of the value thereof, modified, of course, by market conditions; and it is growing in favor.

Mr. BURLESON. Just pardon me one moment. I have been informed by Mr. Wickliffe, of Louisiana, that Mr. W. B. Thompson, president of the New Orleans Cotton Exchange, in a speech delivered in Texas, gave his emphatic approval to this warehouse system that is being inaugurated in that State.

Mr. HARDWICK. Before the committee passes entirely from this subject, there are certain amendments that I would like to present. I do not intend to enter into a general discussion——

The CHAIRMAN. Mr. Hardwick, you are like the poor—we have them with us always; there are gentlemen here who have come from a long distance with the understanding that they would be given a hearing to-day. You will be given your day in court later on.

Several days ago this date was fixed for giving a hearing to gentlemen representing the grain industry of the country, and I am advised that a number of them are here to-day, representing particularly the Council of the Grain Exchange of North America. I believe Mr. Merrill is chairman of that delegation, and if he is present I should be glad to have him present the speakers in the order in which he would like to have them heard.

Mr. MERRILL. Mr. Chairman and gentlemen: I present to you the delegates of the Council of Grain Exchanges of North America. This council comprises all of the important grain exchanges of our country. There are present, or to be present during the day, representatives from the exchanges of Chicago, St. Louis, Kansas City, Omaha, Minneapolis, Duluth, Milwaukee, Toledo, Buffalo, New York, Philadelphia, and Baltimore. Only one of our constituent members is not present, not feeling any particular interest in the matter, not being a primary market—that is, the exchange at Memphis, Tenn. Of course, our Canadian members have no interest here. The order of procedure outlined at a little caucus last evening, for the purpose of simplifying matters and saving of time, is in the order of, first, the functions of an exchange in a broad and general way, to include such definite and specific statements as the gentleman may find it his pleasure and convenience to introduce, to be followed by the question of hedging, the value of hedging, and that to be followed by the question of bucket shops, and their relation, and then, as the last specific subject, speculation. The first proposition, the functions of an exchange, will be treated by ex-president Walter Fitch, of the Chicago Board of Trade, whom I now present.

The CHAIRMAN. I will state a line of procedure that is usually followed by the committee in hearings of this character. Upon motion at the beginning of the hearings the committee ordered that gentlemen appearing before the committee should be sworn, and as a matter of convenience to the witness, as well as to the committee, the general practice has been to ask the witness to proceed without interruption until he has made the statement that he desires to present to the committee and he will then be expected to answer such questions as the committee or others present desire to ask him. The committee has no desire, of course, to indicate to you or any other gentleman the line your argument should follow, but in order that there may be as little extraneous matter introduced into the record as possible, perhaps you will pardon me for suggesting that the committee is considering a number of bills, the broad purpose of which may be stated in the language of one of them that I have before me, and which I will read, omitting the technical phraseology and reading only the words that convey the purposes of the bill:

Be it enacted, That it shall be unlawful for any person or association to send or knowingly to receive by a telegraph or telephone line any message relating to a contract for future delivery of grain, cotton, or other farm products, without intending that the grain, cotton, or other farm products so contracted for shall be actually delivered or

ceived, or relating to a contract whereby a party thereto or any party for whom or in whose behalf such contract is made, acquires the right or privilege to demand in the future the acceptance of the delivery of the grain, cotton, or other farm product without being thereby obligated to deliver or accept said grain, cotton or other farm products.

And we trust that gentleman appearing before us before closing their remarks, will offer their judgment as to whether this enactment should or should not receive favorable consideration, and the reasons therefor.

TESTIMONY OF WALTER FITCH, OF THE FIRM OF WALTER FITCH & CO., GRAIN MERCHANTS, CHICAGO, ILLS., AND EX-PRESIDENT OF THE BOARD OF TRADE OF CHICAGO.

(The witness was sworn by the chairman.)

Mr. FITCH. Mr. Chairman and gentlemen, I desire to state that the remarks I am about to make will be briefly made. I approached this body, consisting of part of the lawmakers of this country, at first with something of a feeling of timidity. I had the pleasure of listening to the address which was made by the gentleman from Texas, and when I heard Mr. Burleson pause in the flight of his own splendid oratory and refrain from using a certain word, saying "I will not use the word 'gambler,'" I took on courage, and I proceed with better feeling, being sure that courtesy and good feeling will be extended to us in the consideration of the bill that the chairman has just read. And when he used the words "farm products" that brings it home to us; that is our business; we are grain merchants, and have been in the business many, many years. There is always the question asked, in the consideration of questions of this kind, What is that big bugaboo out there in Chicago, what is that big black building at the head of La Salle street and what do they do there?

And there are many opinions as to what takes place there. I have been there, around that big, black building a good many years. I am going upon the principle that this committee is seeking information, and if not assuming too much I would like to tell them in a few words what goes on there; what the functions of that institution are; and what is true of that institution is true of all other well-organized legitimate exchanges. The Board of Trade of the City of Chicago is an organization of about 1,700 members. That organization is not in business, that organization owns and maintains a big building with a big hall in it, furnishing a meeting place for buyers and sellers, personally or by and through their agents. You might ask, "What is the necessity of an institution of that kind?" Simply this: Suppose that Mr. Burleson, for instance, was in the business of handling products in the great city of Chicago, and some man down at Cairo, Ill., should say to him, "You sell potatoes for people on a commission, do you not?" And he would answer, "Yes." "If so, I wish you would sell ten carloads of potatoes for me; I want to ship them up in about sixty days," and Mr. Burleson being in that business, would have to run all over Water street, where all the commission houses are located, covering a distance of many blocks probably, offering these potatoes for sale and getting bids on them, doing for his customer, who is paying him a commission for performing this service, the best possible. Having a meeting hall for people in the same line of business does not necessitate our running around; we are all there together; that accounts for the rapidity with which we do

business upon a grain exchange, which is one of the startling and mystifying things to the average layman, he can not understand the rapidity with which we make contracts. That is all the board of trade is.

Operations upon the board of trade by its individual members, performing their duties in the way of service for the people who employ them, is a different proposition. I can give you no better definition, gentlemen, or make it broader as to what the board of trade is, or a grain exchange, than the answer given by Mr. George F. Stone, who has been secretary of the Board of Trade of the City of Chicago covering a period of more than twenty years. The question was propounded by Senator Peffer, of Kansas, chairman of the committee, at a hearing before a committee of the United States Senate. The question propounded by Senator Peffer was as follows:

Then I will ask you first, Mr. Stone, to state in a general way what are the objects of boards of trade; what part they play in the commerce of the country, just briefly?

The answer:

The primary function of boards of trade is to bring the buyers and sellers together in the interest of fairness and equity and to facilitate the marketing of products and merchandise and to provide the means for their distribution to the consumers in different sections of the country and in different parts of the world. They are established to facilitate the speedy adjustment of business disputes, to inculcate the principles of equity and honor in the intercourse of merchants, and also to promote the industries of man.

In that connection I desire to say that we court investigation of our book of rules governing our institution, and we defy anyone to find in it in any place any rule that is not based upon fair and square dealing between man and man.

I would quote another question:

Does the board of trade, as an organization, do any business in the way of the trading, buying, and selling, or in another form, as a single body, or is what is commonly said to be the business of the board of trade, as far as people outside are concerned, transacted by the members individually?

The answer:

The board of trade, as an organization, engages in no business whatsoever. The business which is commonly and popularly associated as board of trade business is transacted by the individual members. This is in accordance with section 12 of the act of incorporation and refers particularly to this subject of inquiry.

Another question:

Then is it true that the same freedom exists among the members of the body, one with another, as far as their individual transactions are concerned, as exists among dealers outside who act independently?

The answer:

It is perfectly true. Their position is entirely independent, and as independent and individual as that of merchants not belonging to the board of trade—merchants engaged in any department of business?

Another question:

Then you wish to be understood as stating that the benefits and advantages derived by the members from their membership are only those which come from organization?

The answer:

Precisely.

As I stated before, the exchange in Chicago is the meeting place of buyer and seller, meeting there every day to transact the business

of those who employ them to do so. Why was it necessary to get together? Why was it necessary to get together all the men in that line of business in the city of Chicago? Commerce in grain demanded it; it was of such volume that it requires rapidity of action.

Gentlemen, we are a nervous people; we are a trading people; we are not given much to sitting still; and, probably, for the great good of this country, we differ in opinions as to facts, as to time in which we wish to do things, in fact in everything.

Somewhere, some spot, some place in this great broad grain-growing United States some day in every year, some hour in every day, and I might almost say some minute in every hour, somebody wants to sell some grain. If it is not the farmer over here in Pennsylvania it is the man that lives out in Oregon, and if it is not the man in Oregon it is somebody who lives in Kansas. And somewhere in this broad world every hour in the day and every minute of the hour somebody wants to buy some grain. It is commerce, gentlemen, grain commerce. It is the natural spirit of trade; that spirit is in all of us unless, perhaps, we are professional men. That indicates one thing, a great multitude of sellers and a great multitude of buyers, and there must be a common meeting place. If the merchant in Liverpool to-day, if the importer in Budapest, or if the grain dealer in Spain wants to buy to-day a hundred thousand bushels of No. 2 red winter wheat, he can get in touch with and consummate his purchase practically inside of the hour. If the man who runs a grain elevator in Kansas wants to sell his grain to-day he can do it, because they buy three hundred and sixty-five days in the year, barring Sundays.

Mr. Burleson, in his remarks, referred to the growing cotton-warehousing industry in the South, and if I correctly understood Mr. Burleson he stated that that industry had not reached yet the state of full development; do I quote you rightly?

Mr. Burleson. That is right.

Mr. Fitch. The grain trade has reached the state of full development as far as the handling of the crops is concerned. One need but take a trip over any system of railroad, noticing at every station through which you pass two, three, and four country elevators standing there with their machinery running, day after day, to give the communities in which they are located a market for their grain. The system of warehousing grain, I might say, is practically complete; the system of the warehouse receipt, the registration of it by the State, and so forth.

And now we get along toward the question that is always the bugaboo, and that is future contracts. As I stated before, these people in the world who want to buy and these people in the world who want to sell every day in the year, want to buy and want to sell for different periods. Some man wants to sell his corn today, in February, to be delivered in May. His roads may be bad and he does not care to haul it now, and he says to the man who represents him upon the exchange: "Find out what you can do for me in the way of a price for my corn to be shipped in and delivered in the month of May." All kinds of contracts are made because they have all kinds of ideas as to when they want a contract to expire or when they want it to be fulfilled. The making of contracts of this kind is in such general use that it has worked into a system, a vast system of what you might call insurance. This system has been brought about by the very activity of

the people in the world trading back and forth, the very difference of opinion as to when they want it and when they do not want it, basing their contracts for next week, or next month, or as far along as in the fall.

Some European grain dealer may look at his crop in the foreign countries and say: I want plenty of grain running to me in the month of September; I want the ships coming to our shores bringing me grain; it is good property. And he buys it for that time. Therefore I say that the difference of opinion, the difference of ideas, has worked the grain trade of to-day into one vast system of insurance, and that vast system of insurance has enabled the grain trade of this country to take advantage of it to the extent of handling the crop of this country at the lowest possible expense. I venture to say, Mr. Chairman, that without this great system of insurance that is in effect to-day the difference in the amount of tribute exacted upon a bushel of corn that leaves Hastings, Nebr., or a common point in Kansas, and is laid down in the hands of the consumer in England or in Germany or in France, if you please, were it not for the system that is in vogue now, furnishing this great possibility of insurance that may be taken advantage of, would be practically double what it is at the present time; in other words, it would cost practically double; at least 4 or 5 or 6 cents a bushel more would be paid to the men in between who performed the service for a modest compensation; yet 5 cents a bushel more would accrue to them between the point in Kansas and Liverpool than accrues to them at the present time.

The question always comes up as to intent of delivery, Mr. Chairman, and I will cite you a case that comes up every hour in the grain trade, bordering along this line of insurance. We will say that John Smith has a country elevator at Springfield, Ill., located upon the lines of the Illinois Central Railroad. The Illinois Central Railroad, as you gentlemen know, is a road that runs north and south from the Lakes to the Gulf. John Smith, a grain dealer at Springfield, a man of moderate means, in order to conduct his business gets some help from his bank to finance it, because he runs his business right. His business is that of buying grain from the farmers; he keeps his elevator open three hundred days in the year, and no matter when the farmer drives up with a load of grain he takes it and gives him the market price for it. How does he know the market price? Gentlemen, in all my experience I have never seen such progress made in any line of business, in the way of information, as has been made in the last few years in keeping the grower of grain in absolute touch with what is going on in the markets of the world. The systems of telephones and telegraphs, with the daily papers and everything of that kind, keep the grower in close touch with the markets at all times.

John Smith is buying corn of the farmers; the farmers are hauling corn, and John Smith's elevator holds 50,000 bushels, and they bring him in corn, and he writes his ticket on the bank, which the farmers take and go to the bank and get their money. He says, "I have got to make arrangements for some more money to take in this corn." He goes up to his banker and says, "I have got to take in about 20,000 bushels more of corn, and on the present price it is going to take about $12,000; I want to know if I can get $12,000." Now, if I was

a banker—and I think many of them would ask this question—I would say, "Well, Smith, it is all right for you to take in the corn; I want to see you keep on doing business, but I do not like to loan much money on 60-cent corn; I can not afford to loan you that money to take in that corn and you stand there wide open on it." Smith says to him, "Mr. Banker, I have got a hedge against that corn; just as fast as I buy 5,000 bushels of corn I am selling—it is now February—I am sending up to my representative, to the broker, to the salesman who represents me, who handles my business for me, and I give him instructions to sell somebody 5,000 bushels of corn that I will ship in May and deliver, and my man in Chicago has sold that to Brown, Jones & Co."

Were I representing Mr. Smith as the Chicago salesman I would sell his 5,000 bushels of corn, and when I have sold that for his account I have obligated myself to a firm of standing, or to a member of the same exchange, to whose rules I am amenable; I have sold to him for the account of John Smith, in Springfield, 5,000 bushels of corn, to be delivered in the month of May, and Brown, Jones & Co. have bought of me that amount of corn. I immediately send John Smith, of Springfield, a record of the sale I have made for him, giving him the name of the concern that I sold it to and the price that I sold it at and the terms of the sale, and Brown, Jones & Co. may have been acting for somebody at Erie, Pa., or for somebody in Washington, D. C., who wants the corn laid away and shipped to them in the month of May; and when you have made that agreement you can not get away from it unless you get together and settle it. Just the same as if I agree to build a house for you, Mr. Chairman, for $17,000; within a month's time or two or three months after making the agreement I come to you and say, "Mr. Chairman, I am afraid to start, I am afraid it is too big a job and I am afraid to go on, how much will you let me off for?" I have a right to buy back my contract; I have a right to substitute a contract; I have a right, if it is agreeable to you, to settle it, and turn the contract over to somebody else who will build your house and let me out, if it is agreeable to you.

Brown, Jones & Co. notify this man in Erie, Pa., that they have bought 5,000 bushels of corn for his account to come in in May, as he directed, giving him the name of the house from whom they bought the corn; the transaction can be actually traced the same as a transfer of real estate or of a horse or any other personal property. Now, there is a sale, Mr. Chairman, we intend to deliver. Now, we come along into the month of April and the steamships that are coming to New Orleans are a little short of freight going back and they reduce the price of tonnage from New Orleans to Liverpool and to other foreign ports, and the grain men and the elevator men in New Orleans say, "Here is a chance for us to ship some corn;" and they start to buy corn along the Illinois Central road, and to get the corn for shipment they bid the price up; when they get to Springfield, to John Smith's place, they offer him a price for his corn; they urge John Smith, at Springfield, to make a price for the corn which he has in his elevator. So Smith says to himself, I could sell that corn to the New Orleans men who want to ship it abroad and get a good price for it, and there would be some money in it for me if I had not already sold it to be shipped to Chicago in May.

Then he says to himself, I wonder if I might get my representative in Chicago to let me out of that contract, whether he could buy it back and get me released, and at what price. Then he wires up to his representative in Chicago and his Chicago representative informs him that he can buy back that 40,000 bushels of corn, we will say, for delivery in May, for such and such a price. He looks at it, and he says, "I sold it for 42 and I can buy it back for 48, that is 6 cents difference; but they are offering me a price"—they are bidding him what we call a premium— "over what I could deliver it for in May; I can sell my corn in New Orleans and make 8 cents as against 6 cents that I pay to be released from my contract; therefore, I will do that." And he wires up to his representative in Chicago to buy back the contract, and his representative buys back the 40,000 bushels of corn; and Mr. Smith, of Springfield, by selling his corn to the man in New Orleans, under the new transaction, makes 2 cents on the bushel, or $800 more upon his corn. Now, are we going to deny to the grain dealers of this country the right to get all they can out of the grain that they handle?

Referring once more to the question of insurance upon wheat, corn, and oats, upon which there is future trading and future contracts, it is a well-known fact—any grain man will substantiate what I have stated here, and I speak knowingly, because I have run country elevators myself, lots of them—that wheat, corn, and oats are handled from the farmer's wagon when delivered at the country elevator, upon a margin of profit of anywhere from half a cent a bushel to a cent and a half, and at the same elevator, where we are buying barley, on which there is no market whatever in the way of future markets, our margin or profit, or rather, I would rather call it insurance, is 4 to 5 to 6 cents a bushel.

The Chairman. Would it interrupt you if I should ask you a question right here? Why, in your judgment, has there never been developed a future market in barley?

Mr. Fitch. I think possibly the greatest trouble, Mr. Chairman, in developing a market for future contracts in barley would be the question of grades. There is no grain upon which the weather has such a bearing as it has upon barley. Barley is regarded for its plumpness and mostly for its color, the higher grades being used entirely in the malting industries.

Mr. Chairman, I want to say just one word in connection with that term "bucket shop." And in illustration of that, Mr. Chairman, I desire to go back again to Springfield, Ill., to John Smith, who is in the grain business. I explained to you how that 10,000 bushels of corn for May delivery were sold upon the Chicago Exchange; that John Smith was notified to whom it was sold, and the firm who bought it notified the party they represented the name of the party from whom they bought it, and so forth, making it an actual transaction. I want to show you where those methods differ from what they would have been if John Smith had stepped across the street to one of the small town bucket shops. If he had gone across the street to a bucket shop to make that sale of corn, the method would have been to look at the quotations on the board, the blackboard that these men keep there, and he writes him a ticket at the price, and the transaction ends right there. It would be just the same as if I were to go behind the

stand at the race track and lay them 5 to 0 or 5 to 2, and so forth—identically the same proposition.

Now, you may say that if the bucket shop takes these bets, as you call them, where does he get off if the market goes against him? I would say to you that once in a while he finds somebody that is a member of the exchange who will handle some of his business. The member will do it for him under cover and give him a chance to get off, but if a member does it and is found out he never does it the second time; he is expelled. That supports what I have said that the rules stand for integrity on the board of trade in the city of Chicago, and the same applies to every other exchange. During my term as vice-president and during my term as president I voted aye every time for the expulsion of 21 men. Expulsion from our institution means not—as it does in some—only the forfeiture of membership, thereby permitting the culprit to retain the monetary interest, but it means in our exchange absolute confiscation; that is, your fine, besides losing your business standing.

Just one more word in regard to the grain dealer taking advantage of that insurance that exists. At the present time tributary to Chicago are millions of bushels of corn that are what we call soft corn. The state inspection department of the State of Illinois demands that corn of No. 2 or No. 3 grade, or better, must have not to exceed 19 per cent of moisture; the consequence is that not only the Chicago market, but St. Louis, Omaha, Kansas City, and other markets are being flooded at the present time with what is known as the soft grades of corn. That corn, on account of its condition when it comes into the market, is sold at a discount, is not a standard grade of corn, and is bought by people who have what we call, in grain parlance, the hospitals, where they put the corn in shape, put it in the driers, extract the moisture from it, and they put that corn in a condition where it will keep.

If anybody has ever seen corn out of condition you will know what that means. Now, what is the man in Kansas City or Chicago, who is accumulating thousands of bushels of this corn, going to do in regard to financing it with his banks? What is the banker going to say? I can walk over to the banks in La Salle street in Chicago and say, "I want to borrow half a million dollars; I am taking in this off-grade corn that is coming in on the market; I am drying it out and putting it in merchantable shape; buying it at a discount, getting the corn at 6, 7, or 8 cents a bushel, and it costs me 4 or 5 or 6 cents to dry it out, and I have got a possible profit of a couple of cents a bushel." My banker says: "Yes, if the price don't go down," and I say to him, "I have got every bushel of it sold against for delivery in the month of May," and the minute I show that statement my banker will not only loan me half a million, he will loan me four or five times that amount if I want it; I speak knowingly because I have done it so much. It is the same as insurance.

Mr. Merrill. May I ask you right at that point to show the value of that corn, or what it would be in the market but for the buying of it to dry and thereby making it safe to keep?

Mr. Fitch. There is no telling; that would be hard to answer; however, I might say that it would probably be between seven-eighths and nothing. This vast system of insurance that has come up, as I

stated before, from the difference of opinion of the people of the world, has been sixty years building, and, gentlemen, I do not believe this committee or any other committee or any Member of Congress wants to disturb the grain commerce of this country by tearing down or attempting to tear down in sixty days what it has taken sixty years to build up. It may not be perfect. I do not know if you gentlemen are aware of the fact that many of the States have their bucket-shop laws, at the same time making legal the transactions upon the exchanges. I am informed that the District of Columbia and the following States, Indiana, Missouri, Iowa, Michigan, Pennsylvania, New York, Massachusetts, Kansas, and Tennessee, have passed stringent laws against bucket shops, at the same time legalizing trades made on regular and legitimate exchanges.

Gentlemen, I might take up your time for hours; the subject is almost inexhaustive. It is a subject, of course, that is dear to us, because it is our business, and we have grown up in it. I am not going to infringe upon your patience any longer. There is nothing in this world that is perfect; there are defects in almost everything; but the careful diagnostician and the careful surgeon determines how the operation may be performed with the least pain or the least disturbance. We are not perfect; we have things hanging onto our business that we are just as anxious to shove off as you are; we can see, perhaps, where an operation would be for the benefit of all; but we can not see where a capital operation is necessary. There never was a carload of fruit shipped that did not arrive at destination with a few specks on the peaches; you never send a battle ship around the Horn but that when she gets to San Francisco or Monterey she is not covered with barnacles; but you do not throw away the carload of fruit, nor do you dynamite the battle ship. Not all legislators are worthy of the trust that the people put into them. We have seen those that have gone wrong and those that are not right; they are not all perfect, but it does not damn the system of legislation in the main. Gentlemen, I thank you for the time you have given me.

Mr. LEE. How many grades of winter wheat are sold on the Chicago board?

Mr. FITCH. There is a No. 2, there is a No. 3, and a No. 4.

Mr. LEE. Suppose a miller in Atlanta, Ga., buys ten carloads of wheat, can he specify the grade of wheat which——

Mr. FITCH. No, sir.

Mr. LEE. He will have delivered?

Mr. FITCH. No, sir; he can have one of three grades, because there is always a scarcity in the high grade, and that always commands a cash premium. For instance, if I should sell to-day 10,000 bushels of wheat for delivery in the month of May, agree to deliver that wheat in the month of May, I, as the seller, have one of three ways of delivering that wheat; I can deliver you No. 2 Kansas hard or deliver you No. 1 northern, which is northern spring wheat, or I can deliver you the No. 2 red.

Mr. LEE. You give one of three grades?

Mr. FITCH. Deliverable on contract.

The CHAIRMAN. One of the three you have mentioned?

Mr. FITCH. One of the three.

Mr. MERRILL. At the pleasure of the seller?

Mr. FITCH. At the pleasure of the seller.

The CHAIRMAN. Is it under a contract such as is made on the cotton exchange?

Mr. FITCH. No, sir. For instance, you come in my office and say, "I want to pick up some No. 2," and I will say, "I will see what I can do for you." I would go around to the different elevators having it in store and for sale and ask at what price they would ship the No. 2. I would get the price and come to you and say, "I can get that shipped loaded on the cars for you, at one twenty-eight," and you say, "Buy it," and you would buy that No. 2 red winter right out.

Mr. BURLESON. This is right on the exchange?

Mr. FITCH. Yes, sir; absolutely.

Mr. BEALL. On one of the exchange contracts?

Mr. FITCH. Yes, sir.

Mr. BEALL. An ordinary exchange contract?

Mr. FITCH. An ordinary exchange contract.

The CHAIRMAN. If Mr. Smith had 10,000 bushels of wheat at Springfield and he sold it to be delivered in May, what would he send up to Chicago?

Mr. FITCH. He could send any of the three grades, just to fill his contract. Suppose he had No. 2 red, No. 2 hard, and No. 1 northern; foxy John Smith from Springfield would look at the market and say, "If No. 2 red winter is selling at a premium of 12 cents, I will not send that, I will send the cheapest I have;" and when he sends that wheat up there, to be delivered upon the contract he has made, we have nothing to do with that; the state inspectors enter that car and look it over and determine the grade, and then the State issues a receipt for that wheat which is stored in the elevator, and it is registered; the receipt is delivered to him for his wheat and that receipt is the best collateral to borrow money on in the United States.

Mr. LEE. Will you tell me how many grades are recognized on the Chicago Board of Trade—grades of winter wheat?

Mr. FITCH. You mean on contract?

Mr. MERRILL. There is a little booklet as to the official inspection that is gotten out by the State showing just what the grades have got to be [handing booklet to Mr. Fitch].

Mr. LEE. I want it in the record, that is all; how many grades there are of winter wheat recognized on the Chicago Grain Board of Trade.

Mr. FITCH. Of grades recognized?

Mr. LEE. How many?

Mr. FITCH. Under the deliverable contract, for instance?

Mr. LEE. I mean how many grades you handle.

Mr. FITCH. You mean, for instance, different grades that come on the floor, the number of samples of wheat, and how many grades are liable to be in a sample of wheat?

Mr. LEE. Yes.

Mr. FITCH. You mean, supposing you ship a carload of wheat, how many different grades are we liable to find?

Mr. LEE. Yes.

Mr. MERRILL. Show Mr. Lee the booklet I handed to you.

Mr. FITCH. That is not the idea; he is asking for recognized grades. I know what the gentleman means; he means grain deliverable on contract. You have a perfect right, you know, in buying wheat of

me, to specify a certain wheat or a certain grade, and if I agree to give it to you I have got to give it to you.

Mr. LEE. I understand that; but you don't seem to catch my idea. I want to know how many grades you handle. For instance, as to cotton, they have twenty or twenty-five grades. Now, I want to know how many grades of wheat you have.

Mr. FITCH. We have three grades of wheat deliverable upon contract, and it never changes. Most of our red wheat, which is a winter wheat, is grown in the States of Illinois, Indiana, and so forth; the No. 2 hard winter is grown in Kansas, and the spring wheat No. 1, northern, is grown in the Dakotas.

The CHAIRMAN. Your statement is, then, to the effect that the grades deliverable on future contracts are well defined and always easily understood?

Mr. FITCH. Absolutely; because they are grown in different parts of the country, and the smallest miller can tell you the difference by looking at them; where one miller would pay a certain price for No. 1, northern, another miller would not look at it for that price.

The CHAIRMAN. I have a letter from a miller at Neosho, Mo., the Neosho Milling Company, from which I read the following statement:

These future contract grades are very meaningless and give a varying latitude of grade, variety, and quality of wheat; hard wheat, yellow berry wheat, spring wheat, or soft wheat may be delivered with varying admixtures of damaged wheat of all grades and kinds as suits the seller, whichever is the cheapest. So you can readily see that the miller that buys a future contract and expects the grain to be delivered to him will be sorely disappointed.

Do you think that is an accurate statement?

Mr. FITCH. No, sir; I do not. If the gentleman from Neosho would send any grade of wheat to the markets of Chicago, to be sold there, the State of Illinois says what that wheat is, just the same as if the State of Texas should say what the grade of cotton is; the State of Illinois states what that wheat is, and after they state what it is, then it is sold upon the market.

Mr. MERRILL. And that state law has been in effect thirty-nine years?

Mr. FITCH. Yes.

Mr. BURLESON. I would like to ask you one question. Suppose the miller to which Mr. Lee referred could only use in his mill the grade of wheat which you spoke of as a red winter wheat, could he go to the Board of Trade in Chicago and buy a contract for the delivery of 10,000 bushels of red winter wheat that he wanted?

Mr. FITCH. Yes, sir; he could go on the Chicago Board of Trade and get it as every other man can.

Mr. BURLESON. Could he use the ordinary contract of the Chicago Board of Trade?

Mr. FITCH. What do you mean by the ordinary contract?

Mr. BURLESON. I mean the ordinary contract for the future delivery of grain?

Mr. FITCH. If he bought 10,000 bushels of wheat, is that what you mean, for the month of May delivery?

Mr. BURLESON. I am quite sure that you want to be understood.

Mr. FITCH. Absolutely, Mr. Burleson.

Mr. BURLESON. And I do not want to be misunderstood. Now, here is a miller in Georgia who wants 10,000 bushels of red winter wheat; he can not use any other kind of wheat in his mill, he can not

sell the flour, the product of any other kind of wheat than red winter wheat; could he send an order to the Chicago Board of Trade for 10,000 bushels of wheat?

Mr. FITCH. May wheat?

Mr. BURLESON. Well, red winter wheat.

Mr. FITCH. That is where you will have to specify in your question.

Mr. BURLESON. All I want to get is—well, I will say May wheat, then; I want to know if, under the ordinary contract, the buyer would know, with any certainty, that he was going to get the red winter wheat?

Mr. FITCH. No, sir; because the man who sells that 10,000 bushels of wheat in May, under our rules, has the right—that is perfectly understood by the buyer and the seller, there is no chance of getting away from that—the man who sells that wheat, the elevator man in Chicago, has the right, the seller has the right, in the month of May to deliver to your Atlanta friend one of three grades of wheat, which are specifically stated, No. 1 northern, No. 2 red, or No. 2 hard. Now, may I go a bit further; suppose the gentleman in Atlanta wants No. 2 red winter wheat; the gentleman in Atlanta is familiar with the ruling price of No. 2 red winter and finds it is selling way above him, he may have bought the 10,000 bushels of May wheat at some previous time——

Mr. BURLESON. No, not back at any previous time; he is running a mill and he wants——

Mr. FITCH. Let us put it this way, that he sold 2,000 barrels of flour——

Mr. BURLESON. Oh, no.

Mr. FITCH. And he wants to buy wheat——

Mr. BURLESON. That is not my man; this miller in Georgia wants 10,000 bushels of wheat to use in his mill, and I want to know if he can go to the Chicago Board of Trade and buy a contract for its delivery, with any certainty of getting that character of wheat?

Mr. FITCH. No, sir; he can have one of three varieties.

Mr. BURLESON. Have you more than one contract on the Chicago Board of Trade for wheat?

Mr. FITCH. Just one contract; of course, we have hundreds of contracts, but I am talking of the May contract.

Mr. BURLESON. That is right, the May contract. As a matter of fact, you say the primary function of your exchange is to bring the buyer and the seller together, yet if the Georgia man wanted to get 10,000 bushels of winter wheat he could not go to the Chicago Board of Trade and get it.

Mr. FITCH. Absolutely he could. I have said to you that if you will let me do so I will tell you the procedure. If he wanted wheat he would look at the prices in St. Louis, in Kansas City, and Chicago. He would see the price was one twenty-eight in St. Louis, one twenty-five in Kansas City, and one twenty-three in Chicago. He would write me or come up to see me and say he wanted 10,000 bushels of No. 2 red winter wheat and ask me to see what I can buy it for. I would go to the different elevator concerns and would find somebody that had No. 2 winter wheat and tell them I wanted 10,000 bushels of No. 2 red winter, at one twenty-three, loaded on the cars; and if I found it I would tell the gentleman I could buy it for him, and he would say to go ahead and buy it.

Mr. BURLESON. And that closes the transaction?

Mr. FITCH. Yes, sir.

Mr. BURLESON. And the board of trade has not had a thing on earth to do with it?

Mr. FITCH. That is just what I am contending, Mr Burleson, the board of trade has nothing to do with the thing; it is the members of the board of trade.

The CHAIRMAN. The point Mr. Burleson is making is that the transaction is not on the board of trade.

Mr. FITCH. Everything that is done in the way of an execution of that kind, or a trade of that kind, is done under the rules and is subject to the regulation of the board of trade. If, for instance, I charged him more—suppose the price of the wheat was to be one twenty-three, and I came down to him and said, "I can get the wheat for you at one twenty-three and a half;" I am looking to skin off $50—if I was found out in doing such a thing they would expel me in a minute.

Mr. BURLESON. That is not the point.

The CHAIRMAN. The point that Mr. Burleson had in his mind is that the transaction you have outlined could have taken place if the Chicago exchange had never been in existence.

Mr. LEVER. Or any of its members.

Mr. FITCH. As I stated before, in my comparison of the proposition on Water street, the exchange is necessary because of the rapidity and enormity of our business.

The CHAIRMAN. We understood that perfectly, and for the most part I think you made no statement in your entire address to which any member of the committee would take the least exception; I think we understand entirely the commercial propriety and commercial necessity of the great body of the transactions to which you allude and point out. The point to which we desire particularly to have you address your remarks, of course, is the point touching these deals. We want to find out why it is necessary, in order that a farm product shall be transferred from the producer to the consumer, that there should be a system involving innumerable transactions in which no transfer of that product is made at all; we are hardly able to understand—at least we would like to have your opinion upon the proposition—that these innumerable transactions in futures on the Chicago Exchange are necessary in order that the miller at Atlanta may buy wheat in Chicago on the best terms.

Mr. FITCH. Well, I started to tell Mr. Burleson a moment ago one little incident. The miller at Atlanta might have an excellent chance to sell 2,000 barrels of flour for shipment within the next sixty days at a price that is eminently satisfactory to him, and the minute he makes that sale he knows there is a place in the world where he can buy insurance, so he buys 10,000 bushels of May wheat against that.

The CHAIRMAN. Suppose the miller to whom the wheat is sold should insist upon delivery?

Mr. FITCH. Yes, sir.

The CHAIRMAN. The miller would have to accept any one of the three grades, and there would be two chances to one that he would not be able to get a grade that he would use at all. Would that future contract be in one?

Mr. FITCH. You say that the miller who has the other end of that product would insist upon delievry of the grade that the miller did

not like, but the millers understand that thoroughly. There is no subterfuge about it, nothing under cover, or anything of that kind. I will take you to any miller in this country, large or small, and he will show you at once that he himself has a thorough understanding of just what he is doing.

Mr. McLaughlin. What is to insure that he is not simply making a bet upon what the price of the wheat might be?

The Chairman. You are in the wheat business, and you buy and sell wheat, but I have understood the drift of your argument to be that the exchange was necessary, the system of future contracts was necessary that the millers might hedge.

Mr. Fitch. I did not say millers. If you will remember, I spoke of the grain trade of the world. I didn't speak of the millers or the elevator people. I spoke of a system that was in vogue; of sixty years of work.

The Chairman. I will broaden my expression to correspond with your statement. Now the millers are an important element in the grain trade.

Mr. Fitch. Yes, sir.

The Chairman. If it should happen that a large number of millers, perhaps a majority of them, do not need the future system, would it argue in your mind that perhaps the importance of that system was exaggerated?

Mr. Fitch. I could not answer that question.

The Chairman. To put it frankly, and not beat around the bush at all, I have had letters from scores of millers in different States of the country, answering directly the question as to whether they found the future system valuable to them, and I think not to exceed 3 per cent have answered that question in the affirmative.

(At 1 p. m. a recess was taken until 2 p. m.)

AFTER RECESS.

The committee met at 2.30 o'clock p. m., pursuant to the taking of recess, Hon. Charles F. Scott in the chair.

MR. WALTER FITCH RESUMED THE STAND FOR FURTHER EXAMINATION.

The Chairman. Just before recess this morning I had asked you if I had received the right impression from what you said as to the value and, indeed, the necessity of future trading on the exchanges as a hedge for merchants and manufacturers engaged in the trade. Now, I wish to read extracts from two or three letters that will be fair samples of scores of letters that I have had from men engaged in the grain business either as millers or as bakers or as grain merchants. I might say that these letters were written in response to a letter of my own in which I framed four questions in as noncommittal a way as possible. I attempted to frame them so they would not indicate what my own judgment was in the matter, because I was honestly seeking the opinions of men whose opinions I thought would be of value in passing upon this question.

The character of the questions I asked may be determined by the answers that are given. The first letter that I will read is from an

Oklahoma mill, located at Kingfisher, Okla. It is a small mill, with 100 barrels of flour and 100 barrels of meal capacity [reading]:

We do not find it necessary to resort to the future markets of Chicago or other boards of trade in conducting our business; in fact, we believe we can operate to better advantage without them.

It has been our observation that these future markets are injurious to the miller and farmer alike, for under their manipulations it is impossible to tell what the market will make, and there is nothing for us to base an opinion on as to what will be the next move. Then the wheat corners or high prices usually come at the close of the season when the farmer has no grain left, and he is not benefited thereby.

We can not see where there would be any harm to a legitimate business by the suppression of trading in futures, but to the contrary believe it would be a decided benefit. Instead of having a steadying effect on the market we believe the future markets do just the opposite and often cause a fluctuation which would never be but for the manipulations of such futures.

That is from the Oklahoma Mill Company.

I read next from a letter from the Howards Mills Company, located at Wichita, Kans. The letter is signed by J. E. Howard, president [reading]:

We do not find it necessary in conducting our business to resort to future markets on the Chicago or any other board of trade. In the past whenever we have undertook to protect ourselves it has been no protection, but an actual loss.

We think that the future markets are detrimental to the legitimate interest of the mills and the grain growers.

We do not believe that any harm could come to any legitimate business if future trade was suppressed.

We do not believe that the existence of this future markets or option trading has a steadying effect on the price of grain.

Another letter is from the president of the Franklin Mills Company, located at Lockport, N. Y. (Reading:)

As to margin trading, the writer has been actively engaged in wheat trading for many years and knows from experience that we are forced to deal in options and that the same are a curse to the trade; that it would be infinitely better for the legitimate trade were margin gambling absolutely eliminated. We believe if all the millers of the country were to stand before you at this minute and vote on this question, as the result of their years of experience, they would agree with us that margin gambling is a curse to the trade, and that the milking system of the public should be abolished.

It is the sentiments expressed in such letters that has prompted the inquiry which this committee is now conducting. I have read these letters in order that you may have your mind directed particularly to the subjects which most concern us. You see that these men whose interests, according to your statement, the system developed upon the board of trade is intended to conserve do not think their interests are conserved by that system; many of them express the opinion, on the contrary, that their interests are directly and materially injured by that system. Do you think they are mistaken?

Mr. FITCH. I would answer that in this way, Mr. Chairman. Anybody in the grain trade or milling trade can furnish you many letters diametrically opposed to what is stated there. You will find support on both sides. I have talked with millers personally; I have talked with millers who talked just the way they wrote you and many of them who talked just the opposite way. But I have thought a great many times, Mr. Chairman, that those opinions are a question of a particular year.

The CHAIRMAN. The same man may entertain different opinions in different years?

Mr. FITCH. I have so found it.

The CHAIRMAN. Does that depend on which side of the market he may happen to be on?

Mr. FITCH. Very frequently. Self-interest, you know, is a great lever.

The CHAIRMAN. Can you give the committee an idea of the relative proportions of the transactions in the Chicago Board of Trade in which actual delivery is contemplated and in which it is not contemplated?

Mr. FITCH. Yes, sir; I can answer that question. I know what you mean. But a direct answer to your question would be that delivery is contemplated in each transaction; it is so provided in our rules. So you will have to change that question a little bit.

The CHAIRMAN. Well, I will change it. Can you give us an estimate of the total transactions in grain, in wheat for example, on the Chicago Board of Trade with relation to the number of bushels actually dealt in during the same period?

Mr. FITCH. Is actually delivered? Yes. That question is unanswerable. I do not believe there is a man that lives that could answer that question with any chance of its being any more than a guess.

Might I say in that connection, Mr. Chairman, that the passing of contracts back and forth is what makes the sum of actual deliveries, that is, the actual transactions that take place eventually at the expiration of the futures, at the expiration of the dates of the contracts. For instance, to make it plain to you if I can, 100,000 bushels of cash wheat, the actual spot wheat sold and bought for May delivery to-day, for instance, in the Chicago market, might, in the transporting of that wheat, by the time it reached Liverpool, pass back and forth in the pit, carrying out the system of hedges based upon the insurance which the grain buyer takes advantage of, a dozen times, it might pass back and forth twenty times, there would be nothing to prevent its passing back and forth fifty times—as often as the cash wheat would change hands.

The CHAIRMAN. We assume that your contract is morally and legally binding and we will assume for the present that every such contract is entered into in good faith. There are dealers on the board of trade, are there not, who deal in contracts exclusively, who do not execute commissions for the actual purchase and delivery of grain? In the cotton trade they call them scalpers, brokers entitled to seats on the exchange, who buy and sell cotton contracts, having no further interest in the product than the margin of their contracts, who close up each day's business with each day. Do you have a corresponding class on the board of trade?

Mr. FITCH. We do.

The CHAIRMAN. Can you give us an estimate of their transactions compared with the transactions of the men who are actually handling wheat?

Mr. FITCH. Strictly speaking, of the scalping element, I should say the percentage as compared to the whole was small; and in regard to that, if you will allow me to state, Mr. Chairman, a scalper, a man who buys and who sells, for instance, the same day, who buys and who has to stand for delivery of that wheat in case he did not sell it out, there again comes in the question of rapidity with which we do business. If I go too roundabout a way in illustrating this I request you to stop me. But my point is this. A man might buy

a piece of real estate and tie it up with a hundred dollars deposit, and it might be shoved on through and resold to three or four different people.

The CHAIRMAN. We understand that perfectly, if you will pardon me, and now you will not think me offensive if I use the terms that newspapers use, so we can get down to "brass tacks."

Mr. FITCH. Yes, that is what we want to do.

The CHAIRMAN. I think you know what has been in the minds of the men who have written these bills and who have asked for this hearing. There is a general impression that the wheat pit in Chicago is maintained more for the opportunity it affords to gamble in margins than as an exchange where the seller and the buyer of wheat can be brought together. That is what we are trying to strike at. Nobody wants to injure the legitimate trades.

Mr. FITCH. There is some of that there that you speak of, unquestionably, but it is in the minority; and, like all things that are bad, crop out, that are a small factor on the body politic, it is the most conspicuous.

The CHAIRMAN. And it is the one thing that is bringing the whole system into disrepute so far as it is coming into disrepute; it is the one thing that is responsible for your presence here to-day, and the presence of these other gentlemen, and we would like exceedingly to have you suggest, if you could, some better way than is suggested in these bills to eliminate that which you regard as an evil. Is it inseparable, in a word, from the system?

Mr. FITCH. Absolutely, I say, based upon my experience up to the present moment. If you will allow me, I will say that in a conversation I had with William S. Jackson, a former officer and president of the board, one of the highest grade men we have, not only in the grain trade of Chicago, but prominent in municipal affairs and otherwise, in a conversation I had with him I asked him practically that question, "Have you ever given it any study?" I was referring to the separation embraced in your question, Mr. Chairman. Because we must admit that the barnacle is fastened to our ship. It is true it is small, but it is conspicuous. It is not like a barnacle, because it is not under water. I said "Have you ever given the matter thought as to whether there is a possibility of ever putting it right, eliminating that barnacle?" And his answer was this: "Many, many hours have I given to it, but I always come out the same door that I entered; I am lost in the maze within."

The CHAIRMAN. Would it not be possible by some rule of your exchange to minimize this, if not to eliminate it? Just let me read you a single sentence from a marked letter issued by Houston, Fible & Co., who advertise themselves on their letter head as members of the New York Stock Exchange and the Chicago Board of Trade.

Mr. FITCH. I know Mr. Houston very well, and Mr. Fible.

The CHAIRMAN. It is a reputable firm?

Mr. FITCH. So considered, yes.

The CHAIRMAN. On April 26, 1909, that firm issued a letter which came to me, and I have it here, in which appears this sentence:

> We regard September and December wheat as a conservative purchase around the existing level for scalping profits.

Now, was that not a plain bid for customers who wanted to gamble on the margin in wheat, for the business of such customers?

Mr. FITCH. I should say the language was in poor taste.

The CHAIRMAN. Is it not a common expression in such market letters?

Mr. FITCH. I think not. I never use such expressions myself.

The CHAIRMAN. You are more diplomatic; but is it not common for members of the Chicago Board of Trade to send out market letters in which they suggest, not always perhaps in language so brutally frank as that, but yet in language which can be just as easily understood, that this is an awfully good time to take a flyer in wheat, for instance, a good time for quick profits, and doesn't it indicate to the average outsider that a very important part of the business of this firm is executing such orders?

Mr. FITCH. I will say this: That people in the business are not backward about expressing their opinion as to the trend of the market. On the question of language, I take issue with them. You know, Mr. Chairman, that you can not account for the parlance or slang that gets in use in any organization of a thousand members.

Mr. HAWLEY. Such language as that would not subject him to discipline by your exchange?

Mr. FITCH. No, sir.

Mr. LAMB. It gets in Congress even, sometimes.

Mr. FITCH. Yes; sometimes worse.

The CHAIRMAN. I have another letter in which appears this query, on which I should like your comment. It is by C. W. Clawson, of Kansas City, Mo. He writes it voluntarily, addressed to myself, commenting upon this matter, and states that he has had 20 years' experience both in and off the board of trade. He asks this question:

> If trading in futures is a legitimate business proposition, why is it made a crime to deal in futures off the board of trade—that is to say, to run a bucket shop? If trading in futures is legitimate, why is it not just as legitimate when transacted off the floor of the exchange as on the floor of the exchange? Why can the board of exchange make legitimate or legal that which is declared by law illegal and illegitimate?
>
> What I mean to say is this: If I were to meet you on the street and say to you that I would like to buy from you 10,000 bushels of wheat for May delivery at $1.18 a bushel, or any other agreed price, and you would sell it to me, we would be committing a crime, according to the claims of the Chicago Board of Trade.

Is that last statement true?

Mr. FITCH. No, sir.

The CHAIRMAN. What would be your answer to his first inquiry, that if trading in futures is a legitimate business proposition, why is it made a crime to deal in futures off the board of trade; why is it made a crime, as it is by the legislatures of many States, to run a bucket shop, when precisely similar transactions are conducted on the board of trade?

Mr. FITCH. We disagree as to their similarity, Mr. Chairman

The CHAIRMAN. In what way would you differentiate?

Mr. FITCH. As I stated this morning, in using the illustration of John Smith at Springfield, the methods pursued in his buying or selling 10,000 bushels of corn as against the execution of the same in a bucket shop.

The CHAIRMAN. I am trying to get information.

Mr. FITCH. I understand, yes, sir; and I will try to answer your question.

The CHAIRMAN. Could you expand that answer a little bit and show clearly what difference there is in going into a bucket shop and

placing an order for 10,000 bushels of May wheat and responding to the suggestion in the letter of Houston, Fible & Co. that "we regard September and December wheat as a conservative purchase around the existing level for scalpers' profits?" What would be the difference between placing an order with Houston, Fible & Co. for scalping profits and placing an order with a bucket shop?

Mr. FITCH. The difference would be that Houston, Fible & Co. would execute what orders I gave them either to buy or to sell. For instance, put it on the basis of a scalping profit. If I walked in and told them to buy me to-day 25,000 bushels of May wheat, they would buy it. They would report to me the price that they bought it at and send me a written confirmation showing the execution of that order, showing the price it was purchased at and from whom they purchased it. They made a trade for me; they did not take the trade.

The CHAIRMAN. Did they execute a contract?

Mr. FITCH. Yes, sir. They confirmed the trade to me. They have made a trade with another house upon the board of trade who probably represented somebody. As I said this morning, they might represent somebody in Erie or New York or London, who might be selling against some wheat that my brokers bought. Perhaps that is the wheat I bought. Then, say, in two days I want to sell that wheat. I may have a profit in it and I may have a loss. I may desire to substitute my contract. I might be looking around and saying, "I want to sell this wheat out." Now, whom do I sell it to? To somebody who wants to buy it. I tell Houston, Fible & Co. to sell out that 25,000 bushels for me, and they immediately send it where it was bought, or to the place where people gather together to trade. It is easy to trade on a stock exchange or a board of trade, because people gather together there to buy and sell things. They would not send it to Racine, Wis., for it to be sold on the street there, because there is nobody there to sell or buy; but they send it where people go every day, who trade in grain. I tell them to sell out this 25,000 bushels of wheat, and when they sell it out they report to me with the written confirmation, not only of the price at which they sell it, but of the concern whom they sell it to.

The CHAIRMAN. Then, in brief, an order on the board of trade involves the execution of a contract, while an order in a bucket shop does not. Is that it?

Mr. FITCH. The order on the board of trade involves the execution of a contract, confirmations, practically back and forth. If I wanted to trade in a bucket shop I would walk in and look at the board and say, "I want 25,000 May wheat." And they would write me out a ticket for the price on the ticker. They are taking the other end of it; they don't send that order anywhere, they don't make the trade somewhere; they are acting as principal and agent, which under law of any kind seems to be wrong. They are acting as principal and agent.

Mr. MCLAUGHLIN. And bucket shops charge commissions?

Mr. FITCH. Certainly.

The CHAIRMAN. I presume the regular board of trade does, too.

Mr. FITCH. The board of trade charges one-eighth; the bucket shops charge that and sometimes more. He doesn't act as your agent. I go in to buy 25,000 wheat, and he doesn't act as my agent and buy that wheat for me. He sells it himself; or, as we call it, he sheets it.

Now, what is he doing? He is operating on what? On which way the fluctuations will go, made by the real exchange, made from the result of actual trade, made from the result of actual commerce, the commerce of the country passing back and forth through the market.

The CHAIRMAN. Well, would it be fair to say that a very large proportion of the transactions of the board of trade are in contracts solely?

Mr. FITCH. Well, all transactions are contracts in a way.

The CHAIRMAN. I differentiate that from such trades as involve the delivery of wheat.

Mr. FITCH. You asked me before—you asked about the scalping element?

The CHAIRMAN. Yes.

Mr. FITCH. My answer to that was that I considered it small as compared with the general business.

The CHAIRMAN. Have you any statistics on that at all?

Mr. FITCH. No, sir.

The CHAIRMAN. It is commonly understood that a vastly larger amount is dealt in in a purely speculative way than in a commercial way. Is that impression a mistake?

Mr. FITCH. I have no statistics on the question. Statistics would be impossible to gather on that; but from years of observation, based upon personal observation—perhaps close observation on account of being an officer of the institution—I still would adhere to the statement I made this morning.

The CHAIRMAN. You do not think it is large enough, then, to influence the price of any commodity?

Mr. FITCH. Scalpers never influence prices.

The CHAIRMAN. Well, is the price of spot wheat anywhere in the country governed in any way by the price of futures?

Mr. FITCH. Yes, sir. In this system, if you will allow me, in the hedge system, insurance that has been built up, that enables what we call the hedger to exist and operate, it has everything to do with the price of the spot wheat.

The CHAIRMAN. Then, if there are very large transactions in futures, might it not influence the price of spot wheat?

Mr. FITCH. At times; yes, sir. I say, at times. As an illustration, take May wheat, for May delivery; the price yesterday closed at 113¾. There are three grades of wheat that the seller may deliver to fulfill his contract when delivery day comes in the month of May—No. 2 red, No. 1 northern, No. 2 hard. They are even grades of wheat, all much in demand by different millers, depending mostly on the section of the country they live in. All those are deliverable upon contract. A man who has them sold to deliver in May can deliver them when the month of May comes. And yet the No. 2 red winter is selling, I think, in the neighborhood of 128. In other words, the farmer to-day or the grain men or anybody else who has the No. 2 red winter wheat can get 15 cents a bushel over and above what wheat is selling for delivery in May. It would entail upon the seller the carrying charge, the expenses of insurance, interest, and so forth.

Mr. BURLESON. When you say "wheat," what do you mean by that; what do you mean by the term "wheat?"

Mr. FITCH. I mean one of the three kinds of wheat, all distinct and separate, clearly described varieties grown in different parts of the country.

Mr. BURLESON. Then what did you mean when you said No. 2 red was selling for so much above what wheat is selling for, May, when No. 2 red is embraced in the term "wheat?"

Mr. FITCH. You and I might be in business selling red, brown, and green hats, all of the same grade, and a big bunch of colored gentlemen might come in and buy red hats, so that there would only be a few red ones left, and they might tell their friends about the red hats and others might come in and buy the red hats, until we could put up the price of red hats and still be able to sell them. They might bid up the price of the few red hats we had left. And so in the matter of wheat, a miller needs a particular kind of wheat, there is a demand for that wheat, and it puts it at what we call a premium.

The CHAIRMAN. Is there normally a parity between the future and spot price of wheat that is fairly regular?

Mr. FITCH. I should say yes, sir.

The CHAIRMAN. To what extent is it interrupted by speculation?

Mr. FITCH. Rarely by speculation; but most always by supply and demand.

The CHAIRMAN. You think that dealing in futures does not interrupt the law of supply and demand?

Mr. FITCH. At times it temporarily might affect it.

The CHAIRMAN. Let me read you two or three sentences from a dispatch from Chicago which appeared in the newspapers nearly a year ago. (Reading:)

> Once more the Chicago Board of Trade is the scene of wild excitement.
> Half-crazed men with hollow, cracked voices, are raising pandemonium in the wheat pit.

Mr. FITCH. May I reply in my own way?

The CHAIRMAN. Certainly.

Mr. FITCH. Mr. Chairman, if I should believe all I read in the papers regarding the actions in these two Houses of Congress I should have refused to come down here on the ground that you were all either crooked or crazy.

The CHAIRMAN. Are we to understand from that answer that it was not true?

Mr. FITCH. Yes.

The CHAIRMAN. You think there was not pandemonium in the wheat pit?

Mr. FITCH. I never heard a half-cracked voice in the wheat pit.

The CHAIRMAN. They have good voices?

Mr. FITCH. Yes. And I have been there and I know.

The CHAIRMAN. How about the wild excitement? Is that term justified?

Mr. FITCH. No, sir.

The CHAIRMAN. Everything is always calm and serene, and gentlemen speak in ordinary tones of voice in transacting their business on the exchange?

Mr. FITCH. No, sir. There attends the trading in the markets the usual noise that attends any body of men that are earnest and going about their affairs. There is the hustle and the bustle, the voices raised for bids and offers to sell and buy; the execution of orders naturally requires noise.

The CHAIRMAN. It is a fact, is it not, that during an active day in the pit orders are given and accepted with great rapidity, so rapidly

in fact that a man has not time to raise his voice, whether it be sound or half cracked, but often raises a finger or uses some other sign to indicate that he accepts or rejects an offer?

Mr. FITCH. I never saw anything of that kind in all my experience there, and to bear that out I will say that in our system of trading there again comes in the question of rapidity. You would spend three weeks and I would spend three weeks over the purchase of a corner lot. But on the board of trade if I were getting an order from a London exporter or a miller who overnight gets offers abroad to sell 10,000 barrels of flour, and he wanted to pick the wheat up against it, he would send me the order before the opening and I would get the order and go in there to execute it, and there would be no craziness about it. We are used to those things.

The CHAIRMAN. I should not think there would be.

Mr. FITCH. That is the general order of business, and in support of that I want to say in connection with what you said, I might reject an order. We reject nothing; we accept or say nothing. I would go in and buy that wheat for the miller, and buy it maybe of a dozen different brokers. The market might be 113½ and I might buy some at 113½ and have to pay 113⅝ for my next 5,000 bushels. Maybe I can't buy another 5,000 bushels at five-eighths, but have to give three-fourths. I may have an order to buy half a million bushels of wheat, and by the time I finish getting that wheat it may be a point higher than when I started. Of course we have a system of checking the sales and the purchases; naturally so. There are clerks in that department that do that. Your house has sold 100,000 bushels to Walter Fitch & Co., and you will be visited by the check clerk. "You have 100,000 May sold to Fitch & Co." "Check!" And do you know, Mr. Chairman, that the number of trades that do not check and the questions that arise or disputes that have to be settled are down to such a minimum that you can not count them? Am I right, Mr. Merrill?

Mr. MERRILL. Absolutely right.

Mr. BURLESON. If there is a record of those transactions, why is it that you can not tell us how many sales are made, how many bushels are bought and sold on the exchange during the year?

Mr. FITCH. I can tell you how much groceries I have bought of a certain house, and I could tell you how much my meat bill was at a certain place, and how much my tailor's bill was, but I can not tell what yours, and yours, and yours, and yours was.

Mr. BURLESON. Then, the reason you can not tell is because there has been no addition?

Mr. FITCH. Right, Mr. Burleson; there has never been a keeping of a total of it.

Mr. MERRILL. Nothing but a private individual record of each trade made by each party.

Mr. FITCH. Yes; which is the same as if I sold you a suit of clothes and charged it to you.

The CHAIRMAN. In what other farm product is there a future market on the Chicago Board of Trade?

Mr. FITCH. On the Chicago Board of Trade wheat, corn, oats, and rye, to what extent (addressing Mr. Merrill)? Any future trading?

Mr. MERRILL. Yes; but limited (referring to rye).

Mr. FITCH. Very limited.

Mr. MERRILL. You left out provisions.

Mr. FITCH. Yes; I should add provisions—the hog products.

The CHAIRMAN. There is no future market in hay?

Mr. FITCH. No.

The CHAIRMAN. Either there or anywhere else?

Mr. FITCH. Not that I know of.

The CHAIRMAN. Can you give the committee a reason why it is not as necessary to have a future market in hay as in oats or wheat?

Mr. MERRILL. You may answer the chairman that there is a future trading in hay in Pittsburg.

Mr. FITCH. Yes; I forgot to say that there is a future market in hay in Pittsburg.

Mr. HAUGEN. And there is a future trading in flax, also?

Mr. FITCH. That is in Duluth and Minneapolis. I think we formerly had a future trading in flax in Chicago, but not now, I think.

The CHAIRMAN. You smiled when I asked that question, as if you thought it ridiculous that anybody should ask if there was a future market in hay.

Mr. FITCH. No; I was thinking of my own experience years ago when I was a hay peddler, and how I ever lived to be here to-day I don't know. That is what I was smiling at.

The CHAIRMAN. Well, does there lie behind that the thought that your amusing experience grew out of the fact that there was not a future market in hay?

Mr. FITCH. Not exactly that; but I was also thinking that when it comes to the quality of hay, I never saw two men agree on how hay should be graded—what the quality of hay was.

The CHAIRMAN. And you think the impossibility of grading hay would make it impracticable to have a future market for hay, and that that is the reason of there not being a future market?

Mr. FITCH. It was sold by the bale when I was in the business.

The CHAIRMAN. There is a future market in pork?

Mr. FITCH. Yes.

The CHAIRMAN. And there is not a future market in beef. Why should there not be a future market in beef?

Mr. FITCH. I would have to leave that to President A. Stamford White, who is in the provision business.

The CHAIRMAN. There are 1,700 members on the board of trade?

Mr. FITCH. 1,600 and some members.

The CHAIRMAN. Is the number limited?

Mr. FITCH. The membership is unlimited.

The CHAIRMAN. What is the purpose then of buying in memberships, as I believe they said they were doing?

Mr. FITCH. We are unlimited at ten thousand, and when I say to you that the price at the present time is three thousand, you will see the object.

The CHAIRMAN. I still do not see the object of buying in the memberships if you are so far under your limit.

Mr. FITCH. Well, we are unlimited; but at $10,000.

The CHAIRMAN. You mean that anybody who is willing to pay $10,000 can secure a membership?

Mr. FITCH. I mean you can never make a close corporation out of it, because you can have members by the thousands at $10,000 each.

The CHAIRMAN. Then what is the object of buying in membership?

Mr. FITCH. I think possibly to protect the price a little. What is your idea of that, Mr. Merrill?

Mr. MERRILL. Primarily, sir, to eliminate that floating element which we deem undesirable.

The CHAIRMAN. Have you no other way of eliminating an undesirable membership; have you no rules governing the admission of members aside from the payment of the price?

Mr. FITCH. Oh, yes, sir; we have the most stringent rules regarding admission as to a man's moral character and his standing in business. It is not everybody that makes application to that institution that is admitted.

The CHAIRMAN. Then I still fail to see the reason why memberships should be bought in.

Mr. FITCH. Well, it would look to me like a fairly good proposition when you can get them at $3,000 to pick up a few, even though the number is unlimited at $10,000.

The CHAIRMAN. Who picks them up?

Mr. FITCH. The membership furnishes the money. I contribute, Mr. Merrill contributes, we all contribute so much per year by action of our own vote, the majority ruling.

The CHAIRMAN. And buying somebody out so he will be eliminated and membership in that way restricted?

Mr. MERRILL. I would suggest to you that the board never pays above the price that the memberships are moving at in the market.

Mr. FITCH. Something under that.

Mr. MERRILL. Yes; scarcely up to that.

The CHAIRMAN. Do your rules permit of a transaction in which the amount of the loss shall be limited on any given transaction? Perhaps I might put it in another way: Do your rules allow stop-order losses?

Mr. FITCH. We have what is known as stop-loss orders.

The CHAIRMAN. That is the expression I should have used. Do you execute orders received from anybody?

Mr. FITCH. No, sir. That is a question, Mr. Chairman, that a person like myself can only answer from a personal standpoint. I know what you mean. I get orders from fellows, from Huckleberry Center and Burning Stump, "Enclosed please find $250. You will buy me 5 May corn." "You will do this or that." Back goes what I call, in the language of my house, my "X" letter. "Herewith please find your $250 returned. We are not accepting any business whatever from those not located on our lines of wire." Of course I use that as an excuse. I am not looking for that kind of trade. And so I say, when you ask a question like that, that I must answer it from my personal standpoint.

The CHAIRMAN. Do you think your practice is a universal one among the members of the exchange?

Mr. FITCH. I think so, to a great extent. I could not vouch for them all. I know of some houses that I could name that adopt those methods.

The CHAIRMAN. Is there a fixed margin in the execution of contracts?

Mr. FITCH. There is not.

The CHAIRMAN. That is wholly a matter of individual arrangement?

Mr. FITCH. That is an individual arrangement. If you will allow me to explain——

The CHAIRMAN. Yes.

Mr. FITCH. If you should come in and want me to buy for you 100,000 bushels to be delivered in May I would figure out how much money I could borrow for you on that at the bank when you come to pay for it.

The CHAIRMAN. And the completion of your answer would be that I would have to put up the difference between what you could borrow and what the contract called for?

Mr. FITCH. Most assuredly; just the same as if you went into a bank and wanted to borrow on collateral. I as a banker look into your collateral, and if it is worth $15,000 I will give you $7,000 or $8,000 on it. That is, if I am a good banker; if not, I will give you more.

The CHAIRMAN. It seems that it has been the practice on the part of some cotton brokerage firms to maintain throughout the country what they call wire houses?

Mr. FITCH. Yes, sir.

The CHAIRMAN. You evidently understand the term. Is that a common practice in the grain business?

Mr. FITCH. It is. I have wires myself.

The CHAIRMAN. And any individual giving an order to one of your wire houses will have it executed if it comes in the regular channel, I suppose?

Mr. FITCH. My wires are confined almost entirely to the State of Illinois. They reach down through Bloomington over in the north part of the State. I have seven different connections, and by those seven different connections that I have there I reach practically the whole north part of the State with a system of telephones. I buy thousands of carloads of cash grain with those wires and telephone system, and I am in a position at all times of the day, or my office force is, to notify any farmer within several miles of the town just what he can sell his corn for that day if he wants to bring it in. It is a dissemination of knowledge to the people.

The CHAIRMAN. Have you any means of knowing what proportion of your customers are using your facilities for hedging purposes or for the purposes of actually selling or buying grain, and what proportion are using them simply for what they may get in the way of margins?

Mr. FITCH. You spoil your question by the last word.

The CHAIRMAN. Will you suggest a change; you know what the question means.

Mr. FITCH. I know what the question means, but the word "margins" does not convey the right idea. I take it to be this: What part of my personal business pertains to the hedges or this system of handling grain that I have talked about; what percentage of it is purely speculation?

The CHAIRMAN. I would be glad to have an answer to that question.

Mr. FITCH. I should say 80 per cent; possibly 85 per cent.

Mr. LEVER. Is what?

Mr. FITCH. Is the actual cash grain business, the actual grain business for which I am for a compensation performing service as elevator company's agent or miller's agent or other people's agent; as far

as I know, that is all. But I should make an allowance, and say that perhaps 15 or 20 per cent of it might creep in by some capitalist who thinks stuff is cheap, or stuff is high.

The CHAIRMAN. Do you think your experience in that respect to be a fair average for members of the exchange?

Mr. FITCH. For many houses, yes; for others, no. Perhaps the average would be lower.

The CHAIRMAN. You would hardly be willing to say, would you, that not to exceed 20 per cent on the board of trade was that kind of business?

Mr. FITCH. No, sir. I am willing to say about my own, but not about others; because I would have no way of knowing about others.

The CHAIRMAN. I believe that is all.

Mr. FITCH. If you will allow me, I wish to correct perhaps something in the record. Mr. Lee asked me a question and I think Mr. Burleson asked the same question, and I would like to have it a matter of record if I quoted them correctly. They say, "Can the miller at Atlanta send up to you and have you buy for him 10,000 bushels of May wheat and get No. 2 red?" Am I right in that?

Mr. LEE. Yes; future deliveries.

Mr. FITCH. Yes. I wish to answer that in this way: Absolutely he can if he states to his agent who is performing this service for him that that is what he wants; but it must be so specified at the time the contract is made, the difference being this: That if the miller in Atlanta should say to me, "I want to buy 10,000 May wheat, future delivery May wheat; you have three varieties deliverable upon contract, but I want to be sure that when my contract is filled I get 2 red winter wheat," I would say to him, "2 red winter wheat may be a scarce article, as it now is, and the price work up." Naturally they would give him the cheaper wheat, unless he specified 2 red winter. Then he would say, "I must know that I am going to have 2 red winter wheat, even if I pay a bigger price." Under those circumstances I would get it, and instead of saying, "I will buy 10,000 wheat," I would say, "I will buy 10,000 No. 2 red winter."

The CHAIRMAN. And you execute a special contract?

Mr. FITCH. No special contract, except that there is inserted in the contract that the delivery in the future is to be specific, which one of the three varieties. The same contract, only specific in that respect. I wanted to make that plain.

Mr. MCLAUGHLIN. It is special in that it is unusual. But they do not do that in ordinary hedging operations.

Mr. FITCH. No.

Mr. LEE. If I telegraphed I wanted to buy 10,000 May wheat, you could deliver me No. 2 winter or No. 2 hard or No. 1 northern?

Mr. FITCH. Yes.

Mr. LEE. That No. 2 hard is spring wheat?

Mr. FITCH. No. 2 hard is winter wheat. There is only one spring wheat and that is the northern-grown wheat.

Mr. LEE. Is that specified here?

Mr. FITCH. Yes.

Mr. LEE. Then is it not a fact that a small mill equipped for grinding winter wheat can not grind spring wheat?

Mr. FITCH. Oh, I think they change from time to time.

Mr. LEE. They have got to change their machinery.

Mr. FITCH. I think the greatest difficulty would be in getting their clients used to working the winter wheat flour to use the spring wheat, because the question of quantity of water and moisture in the dough and everything else comes in there.

Mr. HAWLEY. Have these contracts you make on the exchange ever been tried out in the courts?

Mr. FITCH. Yes, sir.

Mr. HAWLEY. What have the courts held?

Mr. FITCH. The gentlemen coming after me will explain that feature. I don't wish to monopolize the time, because there are others who are just as well or better posted than I am.

Mr. LEVER. In your illustration this morning as to the Atlanta miller, I believe you said that the miller had the right to demand the delivery of a certain kind of grain upon the contract made.

Mr. FITCH. No, sir; he has the right to demand delivery.

Mr. LEVER. Of any of three grades?

Mr. FITCH. He demands the delivery, and the one tendering the wheat to satisfy the contract has the privilege of delivering one of three grades, which is always understood year after year and never varies.

Mr. LEVER. So that the seller of the grain has the option of delivering one of the three grades upon the contract?

Mr. FITCH. Yes, sir.

Mr. COCKS. Unless otherwise specified?

Mr. FITCH. Unless otherwise specified. As I stated a moment ago, you can specify that at the time of the initial purchase. If you were an Atlanta miller and were buying for future delivery in May, if you told me to get you any one variety of the three wheats, so as to take away the privilege from the seller as to which of the three he would deliver, you would specify that, and I would tell you what price you could get it at, and I would get it for you, and then when May comes you would get what was specified in the contract.

Mr. LEVER. If I was a grower of 10,000 bushels of wheat in this season of the year, somewhat hard-pressed for money, and desired to convert my actual wheat into money, I would sell 10,000 bushels of spot wheat and hedge against it on your exchange?

Mr. FITCH. Yes, sir.

Mr. LEVER. Upon that hedge he would then have the right to deliver one of three grades of wheat?

Mr. FITCH. Yes, sir; unless you specified otherwise.

Mr. LEVER. I understand. Your ordinary contract does not have any specification as to grade?

Mr. FITCH. No. The ordinary contract calls for the delivery of wheat, and the rules specify what the three grades are.

Mr. LEVER. Do you have a basis? We have a basis in cotton, what we call middling as the basis.

The CHAIRMAN. That has been covered, I think.

Mr. LEVER. Very well, if he has answered in regard to that.

Mr. FITCH. No, sir; standard oats or No. 2 wheat.

Mr. HAUGEN. How about corn?

Mr. FITCH. In corn, there is No. 2 corn.

Mr. HOWELL. Do the grades of wheat remain the same year after year, or is there an authority in the board to change the grades that are tenderable on contracts?

Mr. FITCH. The authority is vested in the State R. R. and W. H. commission to change, but it has not been changed in years. It has been governed a great deal by a change in the wheat territory. For instance, as every student of wheat growing knows, the wheat belt is working farther north. Ten or fifteen years ago an immense amount of wheat was grown in northern Iowa and Kansas and Nebraska that is no longer grown there to-day; that is, the land that was then used for wheat is now used for corn and oats and barley, and the wheat growing has moved farther north. There has been a great increase in wheat growing in the British northwest.

Mr. MERRILL. In speaking of the grades of wheat, I want to have you tell the gentlemen that on delivery there may be No. 2 and No. 1, the No. 1 is always deliverable in all the grades, No. 1 red or No. 1 hard winter; and then comes the No. 1 northern. That makes five grades.

Mr. FITCH. I might state that No. 1 is also deliverable or tenderable on contract, but the State has never been able to find any of that.

Mr. LEVER. You always deliver the cheapest grade?

Mr. FITCH. That is most natural; yes. You fill your contract with the wheat that is bringing the smallest price.

Mr. LEVER. Would not the tendency be that the buyers would run away from that?

Mr. FITCH. Not particularly so. Every wheat we have, if on spot to-day, is above the May.

Mr. MERRILL. In order to get the record straight about the grades, the law of the State of Illinois prevents the changing of a grade during the movement of the crop. It has to be advertised for thirty days in advance of the movement of the new crop.

Mr. BURLESON. You say it frequently happens that when a merchant sells a contract on the board and sees an opportunity to make a more profitable deal, he buys the contract back without effecting an actual delivery upon it. Now, in what percentage of the transactions on the board of trade is settlement effected without delivery?

Mr. FITCH. I have stated I could not answer that. I have stated that three different times.

Mr. BURLESON. You can not answer that?

Mr. FITCH. No.

Mr. BURLESON. You have no idea?

Mr. FITCH. I have no idea. There is no way of getting statistics. I answered the chairman so far as my personal business was concerned. I could tell about that, but I could not answer in regard to the other members.

Mr. BEALL. The business done on the Chicago Board of Trade is not limited to the State of Illinois, of course?

Mr. FITCH. No, sir.

Mr. BEALL. Members operating on that board have their correspondents scattered throughout the entire wheat belt?

Mr. FITCH. Yes, sir.

Mr. BEALL. Now, suppose that man at Springfield, to take an illustration, wants to buy 10,000 bushels of wheat and sends you the order, and you sell it.

Mr. FITCH. I don't sell it. I buy it for him.

Mr. BEALL. You buy it for him, I mean. Where is that wheat to be delivered; where is it deliverable?

Mr. FITCH. That is deliverable at Chicago, Ill., in public licensed storehouse; licensed by the State, provided by the State.

Mr. BEALL. Well, suppose the man who sells May wheat buys it in some other State than Illinois?

Mr. FITCH. Yes, sir.

Mr. BEALL. How is it determined what wheat the seller, say, in Nebraska, delivers upon that contract? He would not send that wheat to Chicago?

Mr. FITCH. He would have to make a delivery and order it in the store, and take out from the elevator company a receipt.

Mr. BEALL. He could not send that wheat directly from some point in Nebraska or Minnesota to the miller in Springfield, Ill.?

Mr. FITCH. No, sir; he could not. The delivery would have to be made, the trade would have to be made, and having been consummated upon the board, his delivery would have to take place there by the passage of a warehouse receipt calling for so many bushels of wheat; and then if the man in Springfield who had asked me to buy that 10,000 for him and I had done so, required that wheat in the mill at Springfield to grind, his orders would be as follows: "Please order out of store 10,000 bushels of No. 2 hard wheat that you are carrying for me. Ship to my order at Springfield." We would have the wheat ordered out and send him the wheat, with a draft attached, and clean it up.

Mr. BEALL. Is there any burden imposed on the trade by reason of the fact that the wheat would have to stop off at Chicago?

Mr. FITCH. No; there is no burden on the trade. Everything in the central part of the West is handled on transit propositions, and so the wheat carries the through rate to common points.

Mr. BEALL. Now, take this No. 2 red. That refers to a particular grade of wheat?

Mr. FITCH. Yes.

Mr. BEALL. Are there other different grades of the red wheat?

Mr. FITCH. Yes; there is No. 1.

Mr. BEALL. No. 1.

Mr. FITCH. There is No. 3.

Mr. BEALL. And No. 2?

Mr. FITCH. And No. 4; and then that comes in so bad that that is rejected. Those grades are determined by the State and they are determined by the condition of the wheat upon arrival. For instance, I have seen wheat arrive at Chicago and have handled it myself, that is graded "rejected," or "no grade." We go to look into it and perhaps we have a letter from the shipper saying it got mixed with barley or corn or this or that, and you could hardly tell what it was. It is graded "rejected." Very frequently we will run that through a cleaning house and separate that stuff and the owner of that stuff will sell his wheat at a higher rate and his corn at a higher rate, and we will thus make more money for him.

Mr. BEALL. Suppose the man in Minnesota gathers that actual wheat to fill that order. He buys it from different farmers?

Mr. FITCH. Yes, sir.

Mr. BEALL. And it is all mixed in together?

Mr. FITCH. Yes.

Mr. BEALL. And it comes in to Chicago and the final determination of the grade is made in Chicago?

Mr. FITCH. Yes; when a man ships to the Chicago market and puts his goods on sale at the Chicago market, that means that he buys by Chicago inspection and buys it by Chicago weights.

Mr. BEALL. You really keep in Chicago, then, a great deal of the actual grain?

Mr. FITCH. We carry great stocks of grain.

Mr. BEALL. That you can bring there without any additional burden being placed upon the trade?

Mr. FITCH. Yes, sir. I might say this, Mr. Beall, that the stocks of grain carried at Chicago are not as large, or in any other primary market are not as large, the last year or so, as they have been. That is purely on account of the farmer. He desires to be a carrier of grain himself. He is now so well fixed that he does not have to send his grain particularly to the centers to be financed; he can finance it himself.

Mr. BEALL. And he has his elevators and granaries at home——

Mr. FITCH. We could have a decrease in Chicago of 20,000,000 bushels from what we have had before, and that 20,000,000 bushels spread around upon the farms of the country would be nothing.

Mr. BEALL. Suppose this condition should prevail: Suppose on every bushel of actual wheat that came to Chicago, the mere fact of bringing that imposed a burden upon that wheat of, say, from 2 to 3 cents a bushel?

Mr. FITCH. Well, I can not suppose a burden put on it unless you explain where it gets on.

Mr. BEALL. Well, let us compare Chicago as a wheat market with New York as a cotton market.

Mr. FITCH. But I have nothing to do with cotton. You must not lead me into the cotton proposition, because I shall refuse to answer. I am here to give you information about grain, but don't flash any cotton.

Mr. BEALL. Well, I am going to flash some cotton and then you can refuse to answer if you want to. I am going to state the situation with respect to cotton in New York and ask you if such a condition prevails with respect to grain.

Mr. FITCH. I will do the best I can.

Mr. BEALL. The testimony before the committee has been that there is a tax upon every bale of cotton that stops in the city of New York of $1.50 a bale; that in order to get the actual cotton in the city of New York as a basis for fulfilling the contract in cotton they are compelled to pay $1.50 more than the cotton is worth elsewhere. Now, if such a situation as that should prevail in Chicago with respect to wheat—say a bale of cotton is worth on the average $60, and $1.50 per ton placed upon it would be about 2½ per cent of its value—suppose a corresponding burden should rest upon the wheat that is actually brought to Chicago, with which you gentlemen would have to execute your deliveries; do you believe that under such a condition as that Chicago would be or could be a wheat market? I mean a special wheat market?

Mr. FITCH. Wheat will seek the most advantageous and highest market. Chicago has no burden of that kind.

Mr. BEALL. That would be an unnatural condition?

Mr. FITCH. Yes. Chicago has no burden of that kind. Wheat that comes to Chicago is attracted there by Chicago facilities. Mr. Merrill, or Mr. Foss, what is the total storage in millions that we have in Chicago?

Mr. MERRILL. Mr. Foss can answer that.

Mr. FITCH. It is over a hundred million, public and private, is it not? We have storage room in Chicago for over a hundred million of grain, modern, rapid-working houses, big, massive elevators, and you throw a string of cars in and they take the grain out before you can hardly see it.

Mr. BEALL. Can you tell me what would be a fairly normal amount of grain in Chicago?

Mr. FITCH. I should say at the present time, between four and five million of corn, say five million corn; I would hazard a guess that there will be fifteen to twenty million in May.

Mr. BEALL. There are certain risks in the conduct of operations in wheat?

Mr. FITCH. There are risks in every business.

Mr. BEALL. I understand. The farmer that plants the wheat and cultivates it and gathers it and thrashes it bears part of the risk, I would suppose; he bears the risk up to that time?

Mr. FITCH. Yes.

Mr. BEALL. From the time it leaves the farmer's hands until it is converted into something else, ceases to be wheat, the risk is still maintained, the risk that is involved in handling it. Where, in your judgment, is that risk placed; who bears the burden of that risk, under the system that prevails in your board of trade?

Mr. FITCH. The farmer's risk ceases when he delivers it to the country elevator in the nearest town. The facilities for handling the grain in the wheat-growing country, as I stated this morning, are almost beyond comparison.

Mr. BEALL. When you buy some wheat from a farmer, in determining what price you pay for that wheat, do you not take into consideration the risk that you as a holder of the wheat will have to bear in the future?

Mr. FITCH. Yes, sir.

Mr. BEALL. And does not that affect the price?

Mr. FITCH. No, sir. It would if we were without the present system that we have. As I stated this morning, the difference of opinion of all the people in the world has created a market, and by the creation of a market has made possible the system of hedging. You can always find a buyer or a seller. And therefore on account of the handler of grain—the same man you speak of—on account of his having that protection or insurance, on account of that existing system to fly to, he is able to handle that wheat on the smallest possible margin of profit. I would venture to say to-day—I remember, in fact, in my own connection I ran a line of elevators for years, something over a hundred country elevators, and year after year through the system of hedging, of buying our stuff at the station from the farmers and then shipping it to the centers, and, in cases, on to the seaboard and then across the water into consumption, handling it clear through, we were able to pay continually, year after year, to operate those elevators, and take wheat, corn, and oats from the farmer on a margin of profit of one-half to 1½ cents; and there are men in this room who

operate lines of elevators to-day and who handle cash grain that can verify what I say.

Mr. BEALL. Suppose you wanted to buy from the farmer wheat to be shipped to Liverpool. In fixing the price that you give the farmer for that wheat, you take into consideration the cost of exporting that wheat, do you not?

Mr. FITCH. Not always, for this reason. We sometimes get, as we have been the last year, upon what we call a domestic situation. No statistician so far has been able to fully keep time with the enormous increase in consumption. The increase in competition or decrease in production many statisticians have been able to tabulate and give you reliable statistics from time to time; but no statistician has ever marked time with the great increase in production, I contend. Therefore we are at times upon what we call a domestic basis in this country. We are there now. We have been there for the last year and a half.

Mr. BEALL. Well, is that the usual situation?

Mr. FITCH. No, sir; but it has been gradually growing year by year by year. Let me make you a prophecy based on my experience of years in the grain business. The day will come when we will be down here—because it will be within our time when we will be arguing with Members of Congress—we will be here arguing to you that you have got to take that duty off of Canadian wheat, because we don't want to go hungry. We can see it coming. I am giving you my personal idea. If I were buying wheat at Dennison, Iowa, to-day, say, if I knew of some wheat out there to sell or a man would come to me and say "I have got 10,000 wheat" (I have a man that comes to me every year that grows corn on his own farm out there and had 150,000 bushels to sell after he uses all he needs for himself), the way I would do with the wheat, I should decide one of two things. I should look at Liverpool and look at the domestic situation, competition in our business is very strong, Liverpool not being so advantageous in price, not netting so much with ocean freight, insurance, and so forth deducted, as our domestic situation, perhaps this is No. 2 winter wheat, perhaps it is No. 1 hard, whatever it is I am in touch with the milling demand and I know the mills are paying so much for that wheat. I will buy that 15,000 bushels of wheat, or 10,000 bushels of wheat, or 25,000 bushels or 50,000 bushels, or 100,000 bushels, and let him load it on the cars, and I will give the farmer who puts it in the cars within 1 cent a bushel of what I get for it.

That is made possible by the system that is in vogue, because the minute I buy that 100,000 bushels of wheat I will sell it to somebody. You ask who—the gambler? I say no. I will sell it to somebody in this broad world who wants to buy on that day.

Mr. BEALL. Well, that wheat has got to be transported somewhere and be delivered.

Mr. FITCH. Yes, sir.

Mr. BEALL. Does not the burden of that transportation charge ultimately fall upon the producer of that wheat?

Mr. FITCH. The producer is the best fixed of any man that is a party to the wheat transaction from the time the seed goes into the ground until the flour is eaten, and I can sit down and figure it out at the present time.

Mr. BEALL. How long has that prevailed?

Mr. FITCH. I would that I could answer.

Mr. BEALL. Well, is it a fact you can sit down with a piece of paper——

Mr. FITCH. You ask me how long it will prevail?

Mr. BEALL. No; I say, how long has it prevailed?

Mr. FITCH. Well, in the last two or three years the money is rolling toward the land.

Mr. BEALL. Well, don't you think it is about time for it to roll that way?

The CHAIRMAN. Don't go into that.

Mr. BEALL. You don't think, then, that in ordinary times—this may be an exceptional instance, the present condition—but in ordinary times and under conditions as they ordinarily exist, has the burden involved in these transactions in wheat fallen upon the producer of wheat?

Mr. FITCH. I can not see it that way. From the conditions existing as I know them, from having been an actual handler of wheats and grain, buying it from the farmers and marketing it in this country, I can see in the last thirty years where the burden has been on the producer; because he has at all times, on account of the progress made in the disseminating of news, values, everything of that kind, he has been in the position where he sells his grain to the best possible advantage. Of course there was a time when conditions were not so good. There was a farmer (a class) who was forced to sell his wheat the moment it came from the thrasher, and then there was a man (a class) that had a little money so that he could put his wheat away in the barn. But now they are all holders.

Mr. BEALL. We have the cotton men here, and a very able gentleman gave the opinion to the committee a few days ago that when the farmer sells upon a declining market the burden is placed upon him, but if the sale is made upon an advancing market it is distributed throughout the world and put upon all the consumers of the world. Do you think that any rule like that would be applicable to the grain trade?

Mr. FITCH. You will have to excuse me from answering that. I can not go into that.

Mr. BEALL. Well, you have been very accommodating.

The CHAIRMAN. I would like to ask one or two other questions. Your position, both as an operator on the board of trade and an actual dealer, will enable you to answer this question: I should like to know in what way you would be obliged to readjust your business in case the future market should be eliminated from the grain business?

Mr. FITCH. You want my honest opinion?

The CHAIRMAN. Yes, sir.

Mr. FITCH. I believe that chaos in the business circles of this country pertaining to grain would result, and absolute chaos. I believe you would disturb something that has taken sixty years to get it where it is, and I believe that disturbing that, and with nothing—and I say this with all due respect to you—and having nothing better to offer than you offer there, that absolute chaos would result. I have not taken issue with you upon the honesty of your intent. I have not taken issue with you upon the question that evils do exist. I have contended they do not exist to the extent that perhaps some of the

gentlemen of your committee claim they do exist. I have not taken issue with you that perhaps some way should be found—you have done me the honor to ask if I could suggest any way to cure them—I take no issue with you or with your suggestion that something might be done; but I say that the Scott bill, if it should become a law, would result in absolute chaos. You have asked me for my opinion. Maybe I have given it too freely.

The CHAIRMAN. Not at all. Nobody is more anxious to avoid chaos than the chairman of this committee. We are American citizens the same as you are, and interested just as you are in the prosperity of this country.

Mr. FITCH. I appreciate that you are, and that you have its welfare at heart.

The CHAIRMAN. And there is not a man here who would support a measure for a moment that he believed would inflict serious damage upon any legitimate business. I am glad you expressed your opinion as frankly as you did. And yet I should like to pursue it a little further. It will be admitted, of course, that wheat will be grown and it will be ground into flour and made into bread and bread will be eaten whether there is a future market in Chicago or not. I would be glad to find out just the practical changes that would have to be made in your business in the event of the elimination of that future market. Can you answer it by saying you would have to do business on a wider margin?

Mr. FITCH. I will say that to you right off at the jump. I will say that to you as a man who runs lines of elevators, who is interested in elevator property, and deals directly through his agents with the farmers, farmers that I have known for years, that haul their stuff to the elevators. I will answer that "Yes." I am not claiming that this system has not got somewhere in the structure, perhaps, something that we do not like; but we can not take that out until we find something to put in there to keep from pulling the structure down. Not only would we have to operate upon a wider margin, but we would have to reconstruct our financial arrangements in the West. I wish, sir, that you would ask, if you could get before you, a committee or a delegation of three or four of the bankers of the city of Chicago, or some of the western cities I could name, to come down here and talk to you regarding the financing of grain.

This system, faulty though it may be and having weak spots, is the very foundation that the financing is placed upon, and that is what leads me to say that in the disturbing of all these elements there can be but one result. I am not saying that the present system is absolutely correct and perfect. You never saw anything in your life that was perfect. Everything is more or less specked. As I told you this morning, we have seen bad legislators. We have seen bad all kinds of things. But if you attempt to disturb this system by not substituting something else that will take care of it, I reiterate, chaos in the business circles of the country will result, wherever it pertains in any way to the exporter. It will also reach the farmer and the grower of grain, the middle man, everybody. It will mean the disturbance of conditions that have existed for over sixty years.

The CHAIRMAN. When was the Chicago Board of Trade organized?

Mr. FITCH. I think in 1848.

Mr. MERRILL. 1848 is correct.

The CHAIRMAN. And has the future system existed during that time, or was it a later development?

Mr. FITCH. The future system has existed practically all that time. It has been a steady growth, except the last year or two it has been a steady decrease. That may be a little information to you.

Mr. LEVER. You mean in the volume of the transactions?

Mr. FITCH. Yes. That can be explained, probably, Mr. Chairman, by the springing up of other primary markets. For instance, there is Minnesota, with a clientele of its own. Minneapolis is now a primary market with a clientele of its own. There was a day when the parent institution practically stood alone.

Mr. LEVER. How many grain exchanges are there in this country?

Mr. FITCH. They have a list of them here, I think.

Mr. LEVER. Will you put that into the record?

Mr. FITCH. Yes; they can tell you.

Mr. HAUGEN. Are we to understand that the expense incurred in unloading, in storing, reloading, reshipping, is a necessary expense?

Mr. FITCH. Yes; that is an expense that is necessary.

Mr. HAUGEN. That was a matter asked by Mr. Beall.

Mr. FITCH. Wherever labor is, there is an expense. It takes labor to handle grain.

Mr. HAUGEN. But the same expenses would be incurred if loaded and unloaded, shipped and reshipped at any other point?

Mr. FITCH. Yes. At certain primary points they have transfer arrangements; where certain western roads do not care to have their cars go east there are arrangements for transferring the grain. That is without expense.

Mr. HAUGEN. Where grain is stored in transit, the shipper has the benefit of the through rate?

Mr. FITCH. The man that owns the grain—it all depends. Here I will give you an illustration. I know what you mean. If John Jones of your town in Iowa shipped a car of grain to me and told me to sell it for his account—that is known as consignment business—I act as his agent. He tells me to sell the grain; he owns the grain until I sell it, doesn't he?

Mr. HAUGEN. Yes.

Mr. FITCH. All right. Then he gets the benefit of everything in rate and everything else. He has only subtracted from the total amount the charges specified and the account of purchase. But suppose he says to me, "What will you give me for a car of No. 3 corn on track at Northport, Iowa?" I say, "I will give you so much." Then the corn is mine. I put it there. That is the way it is handled.

Mr. HAUGEN. I am going back to your friend Smith again. Suppose the miller Smith orders 10,000 bushels of wheat. The wheat is shipped to Minneapolis and then to Chicago and stored there for three months. Then it is reloaded and shipped to some point in the North. Now, does he get the same rate as if the wheat had been shipped from Minneapolis directly to whatever point that might be?

Mr. FITCH. No; there will be a storage charge for taking care of it in Chicago.

Mr. HAUGEN. There will be the terminal charges and what else?

Mr. FITCH. There will be no terminal charge, but there will be insurance and interest, if he borrows money on it. Only such charges

s he himself instructed to have made. He may say, "I have no oom for that in Springfield; so you store it in Chicago."

The CHAIRMAN. Is the railroad rate the same?

Mr. FITCH. Practically the same. It should be the same.

Mr. HAUGEN. Then that is the privilege of unloading?

Mr. FITCH. Yes.

Mr. MERRILL. Explain to him that the through rate may be readusted.

Mr. FITCH. The railroad rate may be readjusted any time within ix months. It is practically a holding in transit privilege. Any time ou could store that wheat again for five months.

Mr. MERRILL. In order that the record may be clear, kindly inform hem that the rate for storage of wheat is three-quarters of a cent the rst ten days or part thereof, and one-fortieth of 1 cent per bushel er day thereafter.

Mr. BURLESON. I want to ask one question, for evidently I did not nderstand him. You understand that the provisions of the Scott ill are directed against transactions where the seller has no intention f delivering and the buyer has no intention of receiving?

Mr. FITCH. Yes, sir.

Mr. BURLESON. Such transactions repeatedly have been denounced y the Supreme Court of the United States as gambling transactions. m I to understand you now to say that if such transactions were rohibited that the future contract system could not continue to xist?

Mr. FITCH. I did not say that.

Mr. BURLESON. If you do not say that, if the provisions of the cott bill are directed exclusively at transactions where the seller has o intention of delivering and the buyer has no intention of receiving, ill it hurt the future-contract system if the Scott bill becomes a law?

Mr. FITCH. You will pardon me if I say that you and I might be able to differ as to an interpretation of the Scott bill; we might not gree.

Mr. BURLESON. Suppose we do agree on that proposition; suppose hat is the only character of transaction that is embraced within the rovisions of this bill.

Mr. FITCH. Yes, sir.

Mr. BURLESON. Suppose it is only transactions of that kind that re attempted to be prohibited. Do you say that it would destroy he future-contract system?

Mr. FITCH. Your intent might be all right and of the best, but I an not see how it would work.

Mr. BURLESON. Well, it is not a question of my intent. Suppose hat was the only transaction that is prohibited, suppose that is going o be the effect of the bill; would it destroy the future contract system f the Board of Trade of Chicago?

Mr. FITCH. I have answered that fully. I have stated what my pinion was, at the request of the chairman, should that bill be passed. have gone as far as I desire to in going on record in an opinion of hat.

The CHAIRMAN. If there are no further questions, Mr. Fitch will be xcused.

Mr. FITCH. I thank you.

Mr. MERRILL. I will ask Mr. John L. Messmore, of the St. Louis Grain Exchange, to address you.

The CHAIRMAN. What phase of the question will he speak on?

Mr. MERRILL. He was assigned the question of hedging more particularly, but he tells me that what he has to say will be somewhat more general in character.

The CHAIRMAN. We will hear from Mr. Messmore.

TESTIMONY OF JOHN L. MESSMORE OF THE ST. LOUIS GRAIN EXCHANGE.

(The witness was sworn by the chairman.)

Mr. MESSMORE. In behalf of the St. Louis Merchants Exchange, of which I have the honor to be a member and one of its directors, I desire to present the following facts to your honorable committee for your thoughtful consideration.

To pass a law abolishing the trading in grain for future delivery would be a calamity to the farmers, small grain dealers, commission merchants, and small millers. The grain trade of this country today is vastly different from what it was seventy-five years ago. Then the farmer who raised wheat took it to the nearest gristmill, had it ground into flour and gave the miller his toll. As the country grew and developed, our crops increased in size beyond our needs and we had to look to foreign markets to dispose of our surplus. The first exporters worked on a big margin—they bought the surplus grain at their own figures. Some of the early exporters in St. Louis told me that before trading in grain for future delivery became a custom, they made from 10 to 20 cents per bushel on every bushel they exported. Forty or fifty years ago St. Louis was the largest winter wheat milling center in the United States. At that time most of the wheat came to St. Louis in bags by steamboat. The arrivals on Sunday and Monday during harvest were enormous and the whole levee would be piled high with bags of wheat. On Monday mornings the millers would come down, see the big consignments, put their heads together and agree to stay out of the market until the congestion would force a decline of 10 to 15 cents per bushel. This condition of affairs soon became so intolerable to the commission merchants who had drafts on the consignments to meet that they formed a stock company with a capital stock of $200,000, which was considered a large corporation in those days, to take the surplus grain off the market until conditions adjusted themselves. This company was in existence two years when it was liquidated. Trading in grain for future delivery had developed, which steadied the market and there was no longer any need for the stock company.

The exporter of to-day works on a very small margin, frequently only 1 cent per bushel profit. The millers also work on a small margin. They are able to do this because they can protect their purchases or sales in the terminal or primary markets, by buying or selling the grain for future delivery. Last year the wheat crop in the Southwest was almost a failure. Numerous millers had to come to St. Louis for their wheat. Many of them could not take care of more than ten or twenty thousand bushels of wheat at a time; but they were anxious to buy supplies for six and eight months ahead. There were so many millers who wanted to do this at the same time that there was not

enough wheat in St. Louis elevators to supply their wants. Our grain merchants, however, contracted the wheat with them, and protected themselves by buying wheat for delivery in December and May, and as fast as the wheat was shipped they would sell out their contracts for future delivery.

To-day there are millions of dollars invested in mills, elevators, and the grain business in general. The business has been fostered and developed until it is one of the most important in the country. Our banks loan us money on warehouse receipts for almost the full value of the grain, because they know we are protected by sales for future delivery. Without this protection they would want a big margin, which would curtail the volume of our business and drive out the small merchants.

Our exchanges disseminate and distribute valuable market information which enables the farmers to know the value of their commodities at any time. It is of vital importance to the farmer to dispose of his grain at a profit—to get all he can out of it. In order to accomplish this, it must be handled by the grain dealer and miller as economically as possible. By the present system of trading in grain for future delivery we are able to handle the business on a very small margin. For instance, when we send out bids to the country grain dealers we base our bid on the price at which the nearest month for future delivery is selling; if we get an acceptance, we then sell the future. Frequently on our purchases—particularly of corn—our profit will be only a half a cent per bushel. We pay drafts of $900 per car on corn when our profit is sometimes less than $7.50 per car gross—less than 1 per cent. There is no other business in the world handled on such a small percentage.

If you do away with trading in futures, when the grain crops of the country begin to move the millers and grain dealers throughout the country would only pay prices that would be so low that there would be absolutely no chance for a loss. This would fall heaviest on the small farmers and renters who have no facilities for holding grain and who would be forced to sell at low prices. This would be a bonanza for the big mills and elevators, and the big concerns controlling a large number of line elevators who have facilities for storing and holding large quantities of grain. They could fill their houses with low-priced grain and after the surplus had been disposed of could command their own prices for their stocks. In a few years, you would see a gigantic grain trust that would put all other trusts to shame.

Just look for one moment at the tobacco industry. There is no method of trading in tobacco for future delivery, and there is a continuous warfare between the growers and warehousemen throughout the tobacco districts. The crimes that have been committed in the tobacco section of Kentucky are a disgrace to the nation. You never hear of the cotton planters or grain raisers having a war with the warehousemen.

Trading in futures affords a continuous market where almost any quantity of grain can be disposed of without sacrifice.

All business is more or less speculative, but as society is now organized speculation seems a necessity. To the uninitiated speculation is often confounded with gambling. This is a grievous error. Speculation is a venture based on calculation; gambling a venture without calculation, blind chance. The law makes this distinction. It

recognizes speculation; it condemns gambling. Federal Judge Grosscup, in a recent decision, said:

Legitimate grain exchanges balance like the governor of an engine the otherwise erratic course of prices. They focus intelligence from all lands and the prospect for the whole year by bringing together minds trained to weigh intelligence and to forecast the prospects.

If this bill becomes a law, you will drive all trading in futures into Canada and other foreign countries.

When the Argentine Republic first became an exporter of grain they had no system of trading in grain for future delivery and the exporters made great fortunes. Now they have adopted the system and the farmers are getting more for their grain than they ever got before.

A few years ago the farmers of Germany thought that speculation or trading in grain for future delivery was a great menace to them, so the agrarian element in the Reichstag succeeded in getting a bill passed abolishing trading in futures. One season sufficed to show them their mistake and the farmers were the first to ask for the repeal of the bill. On April 2, 1900, the produce bourse was reopened; the Government conceded to the dealers the right to resume buying and selling for future delivery and to publish time quotations. One of the capital aims of the bourse law was to restrict speculation, but at no point did it more thoroughly disappoint its authors.

A wise business man profits by the mistakes of others. Let us profit by the experience of Germany.

The CHAIRMAN. I would like to ask you just one or two questions. In regard to the statement you have just made, touching the experience in Germany: Are you quite sure you are right in the statement that the law prohibiting future selling was repealed after a year's experience?

Mr. MESSMORE. I would like to quote you from an article I have on that subject. (Reading:)

From the moment that the produce section of the bourse quit their old quarters there was an interregnum in the grain trade of the country; the modern method of produce dealing was virtually abolished. What was the result? The eldest of the merchants say in their report for 1900: "At nearly every one of our meetings at the beginning of the bourse interregnum we had to answer inquiries from the commissary departments of army and navy, from railway managements, municipal administrations, statistical offices, etc., for trustworthy grain prices, but we were only able to answer that we did not know." The report goes on to show that the only persons getting any advantage from the extinction of the produce bourse were the provincial dealers, who charged higher premiums for their increased risk growing out of the lack of Berlin quotations. In other words, they paid less to the farmers and asked higher prices from the millers.

The Government at once recognized the disadvantages arising from all business interests through the lack of a produce exchange with universally accepted quotations for grain. Hence the minister of commerce opened negotiations with the seceded brokers several months after the dissolution of their organization looking toward reestablishing it. These negotiations were continued for nearly three years before all parties were ready to bury the hatchet, which was done in January, 1900. * * * Even the agrarians had come to recognize the necessity of a produce exchange, for they had bitterly felt the lack of authoritative quotations. True, they still had the liberty to sell their crops in advance of delivery; but they found that they were unable to do this advantageously without quotations recognized by all interests, and without some board of appeal for settling disagreements as to grading. * * *

The produce bourse was accordingly reopened on April 2, 1900. The Government conceded to the dealers the right to resume buying and selling for future delivery and to publish time quotations.

Such are the main features of Germany's recent bourse legislation. What has been the result?

One of the capital aims of the bourse law was to restrict speculation, but at no point has it more thoroughly disappointed its authors. * * * Nothing can be clearer than the complete failure of the law to diminish speculative ventures, and never was the outsider so active and so fully in control of the Berlin market as in the years immediately following its enactment.

The moral effects of the law have been extremely bad.

The abolition of buying and selling grain or produce for future delivery has been equally disappointing. The position of Berlin as a grain market has been seriously shaken. During the last few years the papers have frequently printed comparative quotations in the leading central markets which prove that German prices have become sluggish in responding to upward movements abroad, and that therefore German farmers are failing to get as quick an advantage from rising prices as those of other lands.

The CHAIRMAN. My opinion is that the German law as originally passed not only prohibited dealing in futures in farm products, but also in industrials and other stock, and that, so far as the latter were concerned, they were restored within the year; but the Agrarians distinctly declined to accept any proposition to restore futures in farm products.

Mr. MESSMORE. I have gotten the best information I could, and I am informed that futures in farm products have been restored.

Mr. BURLESON. I would like for you to give us the author of the article you read.

Mr. MESSMORE. I don't know whether this states who the author is or not. It simply says a writer in the Century Magazine for December, 1903.

The CHAIRMAN. Who is the author of the pamphlet that you have there?

Mr. BURLESON. It is the same pamphlet that was sent to all of us two years ago.

Mr. MESSMORE. I presume it is. It does not say here who wrote it.

Mr. BURLESON. If, as a matter of fact, the agrarian element has positively refused to permit a repeal of that law, in so far as farm products are concerned, you will admit that your argument falls to the ground, because it is based largely on the assumption that that has been repealed.

Mr. MESSMORE. But I understand from exporters and others there that futures are dealt in.

Mr. BURLESON. But I say, as a matter of fact, if it has been repealed.

Mr. MESSMORE. It has not been repealed, but the Government has conceded the right to trade in futures in farm products.

Mr. BURLESON. In violation of the law?

Mr. MESSMORE. There is a kind of a modification of the law.

Mr. BURLESON. If, as a matter of fact, it has not been amended, that part of it——

Mr. MESSMORE. It may not have been amended, but, as this article states, the commissioner of agriculture, or whoever he is, has conceded that.

Mr. BURLESON. Am I to understand you to take the position that if transactions upon boards of trade in which the seller has no intention of delivering and the buyer has no intention of receiving that which is sold are eliminated it will destroy the future-contract system?

Mr. MESSMORE. Well, we don't do business on our exchange that way

Mr. BURLESON. No such transactions take place?

Mr. MESSMORE. We expect to deliver every sale we make.

Mr. BURLESON. If you prohibit transactions of that kind, your exchange would not be hurt?

Mr. MESSMORE. It would ruin us if we destroyed this grain trade.

Mr. BURLESON. Then you admit that future-contract system on the exchange can not exist unless it permits transactions where the seller has no intention whatever of delivering and the buyer has no intention of receiving what is sold?

Mr. MESSMORE. We don't make contracts that way.

Mr. BURLESON. Then if this bill of Mr. Scott strikes at such transactions alone, you would not be hurt?

Mr. MESSMORE. We don't have any such transactions.

Mr. BURLESON. You don't think it would hurt you, then?

Mr. MESSMORE. Not if it was not against our regular trading on 'change, no; but every time we make a contract on the floor of the exchange we expect to deliver that stuff, whatever it is.

The CHAIRMAN. Nobody is proposing to interfere or interrupt such transactions as those. The transactions aimed at in these bills are those in which there is no intention to deliver.

Mr. MESSMORE. A case will come up where a man fully intends to deliver and can not do it. I will give you a case like that. Last July we had a great deal of high water in Missouri. Perhaps some of you remember it. I bought from a shipper at Dalton, Mo., 10,000 No. 2 red wheat, to be delivered in July and I paid him $1.07, his track for that wheat. The wheat cost me delivered in St. Louis $1.14 cents a bushel. I sold against it for July delivery for $1.15. Toward the end of the month the wet weather had interfered with harvesting and he discovered he could not get his wheat thrashed. In the meantime the market had declined below that price and he asked me what I would do to cancel that trade. I wrote him that, based on that day's market, I could cancel the trade and pay him $225. I would still have my profit of 1 cent a bushel. He wired me accepting it. But I did a little better than that. The next morning when I closed the trade I got $231 for him and I got my $100.

The CHAIRMAN. I don't think any legislation pending here would regard such a transaction as criminal.

Mr. BURLESON. It would not touch it.

Mr. MERRILL. Inasmuch as the subject of hedging is one you have been familiar with, will you kindly enlighten the committee to what extent the proposition submitted by Mr. Burleson would prevent hedging, where it was intended to send the grain into consumption and not to the market where the hedge was made, because the bill would prohibit that.

Mr. MESSMORE. Anything that tends to restrict speculation would narrow the market, and anything that narrows the market would cause violent fluctuation. The broader market we have the more stable market and the more hedge sales it would take without affecting prices.

Mr. MERRILL. The point I wanted to elucidate was this: Suppose you were to buy grain just south of St. Louis and, to save the freight to St. Louis, instead of sending it there and having to ship it back again you wished to sell the grain, say, in the southeast, and having bought it for future delivery to you, you wish to sell it either in your

wn market or Chicago, with no intent of bringing the grain to St. ouis or Chicago to the place of hedging, but intending that it should o east, and when ready to go east to be sold you would buy back our hedge; that is the point I wish you to elucidate, because the ill would prohibit that kind of a transaction.

Mr. MESSMORE. Yes, sir; that would be very disastrous in its ffects.

Mr. MERRILL. That is the point where the bill will create chaos.

Mr. McLAUGHLIN. In the case of that 10,000 bushels you speak of, id you receive that 10,000 bushels?

Mr. MESSMORE. No, sir. He could not ship it. I bought in my edge on the exchange. I will give you another case just like it. uppose he had shipped that wheat to me and had not sold it to me, ut just consigned it on the market. When I bought the wheat and aid him $1.07 his track, that was equivalent to $1.14 delivered St. ouis. If he had shipped that wheat the last two weeks, when July ould have brought only $1.07, or net only $1.04, he would have lost cents a bushel if he had consigned wheat on the market.

Mr. LAMB. Who lost that money? Somebody lost that.

Mr. MESSMORE. That is hard to say. That is divided up among a umber of people.

Mr. LAMB. That is the point here—that is what we want to find out. that distributed among the trade, or does A, B, or C lose that oney?

Mr. MESSMORE. That is hard to answer.

Mr. LAMB. I know it is difficult, but it is on our mind and it worries s.

Mr. MESSMORE. There are so many ramifications you can not spot nyone.

Mr. McLAUGHLIN. There are a great many transactions of that ind. What proportion of the grain you actually contract for do you ctually receive?

Mr. MESSMORE. You mean when we send out bids in the country n track?

Mr. McLAUGHLIN. Yes.

Mr. MESSMORE. We usually get all of it.

Mr. McLAUGHLIN. This was an exceptional case, then?

Mr. MESSMORE. I had a number of cases last July. They could not et it in on account of the high water. They had the wheat and anted to ship it, but it was ruined. Now, I will show you the dvantage of another case. A man in that same territory, a farmer is was, had 6 cars of wheat. The high water came up and damaged e wheat in the stack. It was all damaged by water. When he rashed it some of it was not fit to market. He wrote to his house sking them if they could get storage facilities for it and take care of and keep it from spoiling. They wrote back that they could make storage rate of 1½ cents per bushel for a month, and an eighth of a ent a bushel every time the wheat was run (elevated to air it). ut they advised him to sell it out and to buy 5,000 bushels for May elivery. He shipped the 6 cars to St. Louis. They graded No. 4 nd No. 3. The No. 4 sold for 95½ and the best No. 3 sold for $1.10. e got the cash for all those 6 cars. He then bought 5,000 bushels May wheat, that is, wheat for May delivery in St. Louis, at $1 per ushel. And up to Wednesday noon if he should sell it out he would

have a profit of 15¾ cents a bushel in it. Now, had all his wheat graded 3 red and been the best quality, had that wheat been sold at $1.10, they could not even have held that in elevator without running it a few times. But say, for the sake of argument, that they didn't have to run it at all. That wheat Wednesday was worth $1.25 a bushel. He got $1.10. There would have been 15 cents advance. There would have been seven months storage and a cent and a half a bushel. You can figure that out and see how that would have benefited him.

Mr. McLaughlin. You buy a great deal of wheat from men who have the actual wheat. Do you not also have a great many transactions with men who have no wheat at all?

Mr. Messmore. We don't know their intent.

Mr. McLaughlin. Don't you have such transactions?

Mr. Messmore. We may, but we don't know it; that is, we don't know what their intentions are.

Mr. McLaughlin. Don't you buy wheat from men who would not know a bushel of wheat if they would see one coming up the street with a bell on it?

Mr. Messmore. No; we have very little trading with men who are not grain men.

Mr. Lever. Mr. Fitch testified, I think, that 15 or 20 per cent of his dealings were speculative. What percentage of yours would you think are purely speculative?

Mr. Messmore. There is a percentage, but how much I could not say.

Mr. Lever. Would it be as much as 20 per cent?

Mr. Messmore. I could not hazard a guess.

Mr. Lever. Would it be as much as 1 per cent?

Mr. Messmore. I would think it would be more than 1 per cent. It might be 20 per cent. I have not given the matter enough thought to look it up, because we consider a speculation in grain just as legitimate as a speculation in real estate. I have known more men to "go broke" speculating in real estate than I have known to lose money in speculating in wheat. Take any business. Ninety-five per cent of the men who go into mercantile business fail.

Mr. Lever. What I want to bring out is this. Mr. Fitch testified that through his firm 15 or 20 per cent of the transactions were purely speculative, where there was no intention to deliver and no intention to receive delivery.

Mr. Messmore. With us, they expect to receive it and expect to sell it out. Whether we do that before the expiration of the contract, or wait until the month actually arrives, is merely a matter of bookkeeping and convenience with us.

Mr. Lever. There are no contracts on your exchange which do not contemplate delivery and the receipt of delivery?

Mr. Messmore. No, none. We sign a written contract, and we exchange those every morning.

The Chairman. What grades of wheat does that contract cover?

Mr. Messmore. You can deliver No. 2 red or No. 2 hard.

The Chairman. You do not have the three grades then?

Mr. Messmore. No, we do not have the spring wheat, because we are not tributary to a spring wheat market.

The Chairman. How do you sell these lower grades?

Mr. MESSMORE. The three's and four's?

The CHAIRMAN. Yes.

Mr. MESSMORE. By sample.

Mr. LEVER. You have the option of making either delivery?

Mr. MESSMORE. The seller has the option.

Mr. HAUGEN. How many grades have you in corn?

Mr. MESSMORE. We trade in No. 2 corn and we make special contracts in No. 2 white corn.

Mr. HAUGEN. How about oats?

Mr. MESSMORE. I think in standard oats, too.

Mr. HAUGEN. Do you operate a line of elevators?

Mr. MESSMORE. No, we do not.

Mr. HOWELL. How is the dealer in "off" grades of wheat that are dealt in on your exchange protected?

Mr. MESSMORE. No. 3 maintains almost the same parity all the time. For instance, if it is 3 cents under No. 2 in December, it is liable to be 3 cents under No. 2 in May. Of course, it fluctuates a little, depending on whether the supply and demand increases or decreases.

Mr. HOWELL. Does the future market, or dealing in futures, affect the distribution of these cheaper or other grades of grain that are not dealt in on the exchange?

Mr. MESSMORE. I can not say as to that.

Mr. MERRILL. They all move together, do they not?

Mr. MESSMORE. Yes; they maintain the same parity all the time.

The CHAIRMAN. The point that Mr. Howell's question suggested to my mind was this: Suppose a dealer out in the country has a large quantity of low-grade wheat which is not provided for in your contract. Is there any way by which he can hedge on that?

Mr. MESSMORE. No; he could just hedge in the grade of No. 2, because that No. 4 he has bought on a basis under the price of No. 2, and it maintains about the same parity all the time.

Mr. HOWELL. The other thought I had in mind was this: How is it possible to distribute all this vast quantity of grain that is not on the exchange? If it is necessary to have the exchange handle these few exclusive grains, how can all this other grain be handled without the exchange?

Mr. MESSMORE. You see the exchange brings buyer and seller together. It disseminates quotations all over the country, and everybody gets the benefit of that information that the exchange sends out.

Mr. HOWELL. The dealing in futures does not help the distribution of these grains that are not dealt in, as I see it.

Mr. MESSMORE. Just the same as No. 2; it is maintained at a parity.

Mr. MERRILL. The trading in futures as a hedge against off grades; that is, grades below No. 2, is a very large business in amount, is it not; that is, a large amount of business in the aggregate?

Mr. MESSMORE. Yes, it is.

Mr. MERRILL. That of course could not be done if this bill should be enacted into law?

Mr. MESSMORE. No; because you could not deliver that No. 3 or No. 4 on the contract. The one would be a hedge as a protection for the other, because a certain parity is maintained all the time.

Mr. LAMB. This hedging business that you describe in that paper acts as an insurance?

Mr. MESSMORE. Exactly; it is a protection.

Mr. LAMB. Is there anything controlling it, like fire insurance?

Mr. MESSMORE. No, sir; those prices are controlled by the laws of supply and demand.

The CHAIRMAN. We will have to adjourn now. Will you remain over until to-morrow?

Mr. MESSMORE. Oh, yes; I think so.

(Thereupon at 5 o'clock p. m. the committee adjourned until to-morrow, Saturday, February 19, 1910, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Saturday, February 19, 1910.

The committee met this day at 10.30 o'clock a. m., Hon. Charles M. Scott (chairman) presiding.

The CHAIRMAN. The committee is slow in assembling this morning but inasmuch as all of these proceedings are to be printed and will be available for use of anyone desiring to consult them, I think we will not wait any longer, but will proceed now with the hearings.

I understand some gentlemen are here who desire to appear before the committee, but are obliged to leave the city to-day. If you will present them first, Mr. Merrill, we will be glad to hear from them.

Mr. J. C. F. MERRILL, of Chicago. I thank you, Mr. Chariman. I will be glad to do so.

The main object of the presence of these gentlemen is by their presence to register the attitude of the exchanges which they represent toward this proposed legislation. None of them, I apprehend, sir, will have any lengthy remarks to make. Indeed, I think they will all be very short, and if it is proper for me to do so, I would like to ask you, so far as it may suit your convenience, to refrain from cross-questioning them during their original statements in order to save time and make it possible for you to hear them, sitting at this hearing to-day.

Mr. Cushing, of New York, and myself, representing Chicago, will be here to-day and later, and I feel sure that the gentlemen from Baltimore and Philadelphia will be at your service next week for such particular time as you may desire, and we shall be able, I feel sure, to answer all the questions bearing upon the general matter that you gentlemen may desire to ask.

The CHAIRMAN. I am sure that will be quite satisfactory to the committee, so that with the exception, possibly, of one or two questions that may be suggested by what is said, we will simply permit these gentlemen to make their appearance and their statements and not detain them any longer.

Mr. MERRILL. Thank you.

The first gentleman we will listen to, Mr. Chairman, is not a member of the Council of Grain Exchanges. He is the chairman of the legislative committee and the ex-president of the National Grain Dealers' Association, which embraces I do not know how many members, but running into thousands, I think, in the general scope of that organization.

I take pleasure in presenting Mr. Reynolds, Mr. Chairman.

TESTIMONY OF MR. A. E. REYNOLDS, OF CRAWFORDSVILLE, IND., CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE GRAIN DEALERS' NATIONAL ASSOCIATION.

(The witness was duly sworn by the Chairman.)

The CHAIRMAN. Mr. Reynolds, give your full name and business connection.

Mr. REYNOLDS. My name is A. E. Reynolds, of Crawfordsville, Ind. I am chairman of the legislative committee of the Grain Dealers' National Association.

Now, Mr. Chairman and gentlemen of the committee, coming as I do from the rural districts, and being engaged in that branch of the grain trade that puts me in touch with the producer and compels me also to find a market for my grain, I feel that I am somewhat at the beginning of things as they may affect the bill before you for consideration.

Perforce, owing to our location as country grain merchants, we are compelled to partake somewhat of the position of speculators, for the reason that I define the "speculator" as the party who, by reason of his own volition or by reason of the fact that he is compelled to, holds grain from the time it is delivered to him until he finds a market for it, and that defines him as a "speculator" to that extent in the cash article.

All of the 1,000,000,000 bushels of wheat and 1,100,000,000 bushels of oats and 2,800,000,000 bushels of corn are first owned by the farmer. In the first stage of its transportation to market or somewhere it is in the wagon box of the farmer that brings it to my elevator; and when I say my elevator I embrace the whole line of country elevators throughout the country. There are about 8,000,000 farmers in the United States, and, taking the average of the family of the country in his household, about 40,000,000 of our population would be embraced. He produces grain, and, by reason of producing it on his own farm, he has provided for himself the grain foods necessary for those 40,000,000 out of the 100,000,000 of people. The other 60,000,000 of these people must buy or provide themselves with food through the channels of commerce.

Between the 40,000,000 already provided for by their own labor or by reason of their position, and the distribution of grains to the other 60,000,000, lies the province of the grain trade of this great country. To them engaged in that trade is left the business of collecting the grain from the farmer, of transporting it over the lines of railways or steamships or other means of transportation, and delivering it to these 60,000,000 people. The farmer at first provides himself for the year's food from his farm. That he keeps in store against the day when he may need it. The other 60,000,000 people provide themselves from day to day with the amount of food required for their sustenance and comfort.

This process of doling out to these 60,000,000 people enough food at the proper time is a vast undertaking. Some one must carry, some one must provide storage, some one must finance that vast amount of cereals that is required to be carried from the time of delivery or the time of production until these 60,000,000 people, if you please, are ready to take their little portion for the day's sustenance.

The proposition is very much greater than at first may present itself to anyone not having given it special study. At the average

market price the wheat would ordinarily bring probably about $900,000,000; at the present price very much more. The corn would bring about $1,500,000,000; the oats from $400,000,000 to $500,000,000. I do not take into consideration all of the rye, barley, and flax, and other minor grains or products, which would amount to many hundred millions more, making a total of about $2,800,000,000.

Supposing that the farmer uses half of it, we would still have to finance during each crop year the enormous amount of $1,400,000,000 of crops, which, as you will understand, with the generally known timidity of money and money markets, must be very carefully, judiciously, and uniformly managed in order that confusion and failure may not attend the undertaking.

Now, I am digressing a little from the primary object of my talk, but I want to impress upon the committee the proposition as it presents itself to me when I try to comprehend the entire problem that is before me. Anything that may happen anywhere to retard the best movement, the most judicious and profitable movement of this vast amount of grain from the farmer, must revert to his detriment. Anything that may in any way impede the progress of feeding this body of 60,000,000 of unprovided people must of necessity very greatly imperil their welfare.

I therefore begin with a simple, common transaction of receiving grain from the wagon box of the farmer, and will, in my weak way, try to show you the problems that present themselves to me. In the little business that I conduct it is not unusual to receive from the farmer 50,000 bushels of grain per day. If I am unable for any reason to take care of that grain that day at that particular time and place, I have impeded the progress of the farmer's transaction, which will revert to his detriment.

Now if it was a cash grain proposition always with the farmer, if I sat at my desk and paid the farmer for the grain this day received, each transaction would be a closed book and I would proceed day by day to take care of the problems that presented themselves to me. But that is not the case. I said at the beginning that perforce, from our circumstances, we were compelled in a degree to be speculators in cash grain. That occurs from the fact that we can not always get cars to take that grain when we want it.

The CHAIRMAN. Let me interrupt you there just to ask what is the meaning of your term "cash grain?" Is it equivalent to "spot cotton?"

Mr. REYNOLDS. Yes. That is the grain that is actually in my house to-day. It comes, 50,000 bushels to-day; I can get no transportation. It comes, 50,000 bushels to-morrow, and I have no transportation. It keeps on. You may say, "That is farfetched." No; it is not, gentlemen. In that line of elevators that I operate I have been fifteen days without one single car available. It is rare, of course. But I am getting 50,000 bushels a day. I say it is not unusual that I do it, however.

Now, I must speculate on that grain to the extent, you understand, that I must stand good for that grain until I can transport it. Now, that is not the worst side of it yet. As you all know, especially those of you who are conversant with the corn belt, our corn generally matures ready for harvesting from the 15th of November on to the winter. But the farmer is the speculator. He comes to me as early as

August, and he says, "I want to sell you some corn." "How much?" "Ten thousand bushels." It is not unusual for a farmer to come to me and sell me 10,000 bushels in August, September, October, or early in November. I must be and would be a speculator of the rankest sort if I should buy that corn without knowing of, or in some way being protected in, the future course of market fluctuations. I must be a speculator somewhat, even with the best system of hedging that is known to a country elevator man, for the reason—and I will give you an instance on the present crop of corn; I mean the crop harvested within the year of 1909, the crop year, including 1909 and 1910. Before one single bushel of the corn was received at our elevators this fall, we had contracted with the farmers for more than 600,000 bushels of corn.

As part of the financial scheme of that, I will say to you that we had advanced to the farmers more than $75,000 on that corn before a single bushel of it had been harvested.

You may say, and it may be urged, that that is an abuse of trade, a usage that has grown up that is unnecessary. But you must recognize the fact, gentlemen, that in rural districts the farmer very largely dictates the course of the merchant. If the farmer wants credit, it is up to the merchant, be he grain merchant or not, to give him credit. If he wants to sell his corn or his cattle for future delivery, it is up to the merchant in that line of business to accommodate him. I want to say that in a way the greatest speculators we have are the farmers. They have ideas very well fixed and defined in September and October on the growing corn crop.

That was expressed last year with respect to the 600,000 bushels that I mentioned. Now, they sold me this corn. How do I know, when a man comes to me in August to sell me a crop of corn that is growing, prospective for delivery in December—how do I know what to pay him? I must depend upon a broad commercial system that gives me a market of future values.

Certainly no blame can attach to me as a country elevator man if Jones comes to me to sell me 10,000 bushels of corn, and if I arrive at the conclusion as to its value, from the commercial reports, that that corn is worth 50 cents a bushel, December corn. And if I buy it from Jones it is certainly a commercial transaction commendable absolutely within the bounds of good sound business, and a transaction that I can not avoid making, if I serve that community in which I am the local grain dealer. I buy the corn. Why? Because I have on my desk this morning when I open up 10 or 20 or 30 or 40 bids. They come on postal cards. They are not secret bids at all. The United States mail is used freely for that purpose. They are sent to the trade broadcast all over the country, bidding me so much for December corn. I am leaving out now the grades, because that all is a matter, gentlemen, that has been discussed here so much already that it is not necessary to go into it. I buy from the farmer No. 3 yellow corn, and I sell No. 3 yellow corn and better. The rule is that if the grain is better than No. 3 yellow corn it still goes at the price I name, and if less, I have to take the discount. I look up those cards.

It may be that Mr. Walter Fitch, of Chicago, puts out a bid for so much per bushel, and that Mr. John Snyder, of Baltimore, or Mr. Cushing, of New York, does so. I look them all over. I take into consideration freight rates, terminal charges, and everything of the

kind, and I figure out how much I can pay for the corn, and I l to Jones that price. He sells it to me. I make a written contr for the delivery.

Now, as I stated to you, we had 60,000 bushels of that kind of co tracts entered into before the corn was grown. I must prot myself or I will come up against the proposition of having 600,(bushels of corn delivered to me in December, bought at 50 cen which I can sell for only 45 cents. We in the country figure that i worth, for taking it from the farmer's wagon box, shelling the co standing the expense of grading and loading it in, about 2½ ce a bushel; and that, you understand, maintains our help and eleva and other things, and leaves us a small margin of profit, which I thi the commerce of the country will show is not unwarranted. S that profit is net to me 1¼ cents profit. That cent and a quarter c be absorbed any day by the fluctuations of the market.

The demands for cash corn—I am speaking of cash corn all t time, which I expect to ship—I will make an application of that a few moments. When the corn comes in I load it in the car, an fill my contracts. I understand, gentlemen, there is nothing in t bill prohibiting that now. But here is the application to it: How the men who put out these cards and back me in the way of givi me a current open market for my cash corn for future delivery—h are they every day in the year to put in my hand those cards unl behind it, somewhere higher up, they are protected also? That the part they have been explaining to you. My part in this mat only comes up to the part they have been talking to you about.

Now, I want to say to you in all earnestness and candor that a co plete revolution of the country grain business must take place unl we every day, and possibly every hour of every day, are able to s grain for delivery at any time that conditions may demand by reas of our purchases from the farmers. If the contention that th other gentlemen make—and I believe, men, that it is true—if t contention is true that they make, that in order to do that they m have the use of and the broadest exercise of a speculative mark such as exists in the various exchanges of the country, then the ab ishing of the present rule would be disastrous to us lower down in t scale, where the grain originates.

Twenty-five years of experience have given me the knowledge th conditions change in the country in regard to receipts from the farme in regard to the farmer's own idea of the growing conditions of cro in regard to his idea of the home consumption of grains; that con tions change almost as rapidly as they do in the central markets. F instance, I have a man come to me and say, "Here, Reynolds, I wa to sell you 10,000 bushels of corn." "All right; it is worth so much We will talk the matter all over, and the result will be that he w say, "I have decided to think about it to-morrow, or next week or next week he will say, "I do not think I will sell that corn. I fi that the prospect is not so good as it was." Another will come in a say, "I have decided not to sell that corn. I think it will be mo profitable to feed it to the hogs." The conditions with the farm change from day to day, because the conditions are largely his ov ideas of conditions. Therefore the conditions and fluctuations go erning the grain trade do not all originate in the grain exchang

initial point from which they largely emanate is the farmer's own , and it is reflected by his own speculative idea that by holding the foodstuffs of these other 60,000,000 people that are unpro- d for he can force the price up. He is the potent factor, the nt element, in making the conditions that prevail in the markets ie country. They are not all made on the exchanges.

iose conditions must be met as they arise by the country grain per. You can not go averse to the farmer's general idea and say, m not going to sell corn and wheat until I get it from the farmer." nay decide not to deliver it to me. Therefore I deal directly with cash proposition. I rarely ever hedge on the same grain or the kind of hedging, if you please, that has been spoken of here. I ly ever hedge grain that I have in a deal for future delivery use I have the cash stuff to ship. But of those 600,000 bushels orn that I have bought, gentlemen, I only get about 500,000 iels, in round numbers; therefore the farmer himself exercised option of buying in, or failing to deliver or exchanging for cash ideration to me, one-sixth of the grain I had bought of him for delivery. I had to go higher up. I had to buy, and if I had unable to do that, if I had been unable to extend to the farmer accommodation, if you please, that he asked me for, when he he wanted to deliver only 500,000 bushels instead of 600,000 iels, I would have been in a proposition wholly beyond my con- simply because the farmer, you understand, will not brook con- ration of anything beyond what he wants done. That is the h. He sells me 10,000 bushels and presently comes along and , "I only want to deliver 6,000." He only delivers 6,000. I can go into court and make him deliver 10,000 for reasons of expedi- . Maybe he did not raise it. Therefore, I do the best I can. ; out with him the best way I can.

s you know, December corn advanced about 10 cents this year. can say to me, "You would have been in fine shape if you had sold any." I would. But what would I have been? A rank ulator. As one gentleman said yesterday, it would have taken ie cash I possessed to have got out in a few days. Those farmers e to me and paid me that extra 10 cents. They came to me and ed when the market was 60 cents, and some of them, I under- d, have the corn now. They have 10 cents more invested in it. t out of the transaction as best I could.

ow, gentlemen, I want to make this just as brief as possible, and ly want to define the position and the situation as it presents f to me, and I have tried to do it in the shortest and most concise ner. Now, I would be glad to answer any questions that are g the line of my part of the grain traffic.

ie CHAIRMAN. We are very much obliged to you.

r. MERRILL. Mr. Chairman, I now present Mr. H. D. Irwin, repre- ing the Philadelphia Commercial Exchange, who wishes merely e a brief. And to say that one of the five representatives of that ange will be here next week to answer any questions that the mittee may have to ask.

ie CHAIRMAN. Your brief is in writing?

r. IRWIN. It is.

TESTIMONY OF MR. H. D. IRWIN, OF PHILADELPHIA, PA., G EXPORTER.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Just give your name and business connection

Mr. IRWIN. My name is H. D. Irwin. I am a grain export Philadelphia.

We would be very glad, Mr. Chairman, to come back any day week to answer any questions and throw any light on the sul We are interested there, in Philadelphia, from the export and m standpoint.

The CHAIRMAN. Yes. If the hearings are continued next you will be advised.

(The following protest was filed by Mr. Irwin.)

THE PROTEST OF THE COMMERCIAL EXCHANGE OF PHILADE AGAINST THE PASSAGE OF THE LEGISLATION COMPRISED IN 7521, WHICH IS NOW IN THE HANDS OF THE COMMITTEE ON . CULTURE OF THE HOUSE OF REPRESENTATIVES.

ANALYSIS OF THE SECTIONS OF THE BILL.

Section 1 makes it unlawful for any person or association to send or receive t telegraph or telephone line any message relating to a contract for future deli grain, cotton, or other farm products without intending that the said products tracted for shall be actually delivered or received, etc., and provides that any guilty of violating this section shall, upon conviction, be fined not more than nor less than $500 and imprisoned for from one to six months for each message.

Section 2 provides that it shall be the duty of any person or association send receiving any message relating to a contract for the future delivery of said farm pr to furnish on demand an affidavit to the sender or recipient that he is the owner products so contracted for, and that he has the intention to deliver said prod that the said products are at the time in actual course of growth on land ow occupied by him and that he has the intention to deliver said products or tha at the time legally entitled to the right of future possession of said products und by virtue of a contract for the sale and future delivery thereof, previously ma the owner of said products, etc.

Section 3 provides that it shall be unlawful for telegraph or telephone lines o owners or employees to allow the use of said lines for the transmission of m relating to such contracts as are described in section 1 to interstate or foreign cou and infractions shall be punished by a fine of not more than $1,000 nor less tha

Section 4 makes it unlawful for telegraph or telephone companies or their emp to transmit or to receive from persons engaged in a commission or brokerage b or from a produce exchange, corporation, or association any interstate or foreig sages relating to contracts for the purchase or sale of the named farm products the person or produce exchange, corporation, or association shall have filed wi telegraph or telephone company an affidavit that the message or messages sen be sent for the following six months will not relate to any such contracts as are des in section 1, etc. Lapses upon the part of telegraph or telephone companies be penalized in the sum of from five hundred to one thousand dollars, and false ments in affidavits shall be punished by a fine of from one thousand to five th dollars.

Section 5 provides that every book, newspaper, pamphlet, letter, writing, o publication containing a notice, account, or record of the transactions of any p exchange wherein such contracts as are described in section 1 are made, is de to be unmailable matter, and for using the mails with it anyone shall be fine one thousand to five thousand dollars and imprisoned not more than five years, o

Section 6 gives the Postmaster-General the right to stamp with the word "unla any mail matter containing a notice, account, or record of the transactions produce exchange wherein option transactions are made, and to prevent its de to the addressee.

Paraphrasing the famous utterance of Madame Roland, one might well exclai reading the above, "O, Interstate Commerce, how many crimes are sought to be mitted in thy name."

It is difficult to specifically state with any degree of brevity our opposition as merchants to the provisions of this bill, which appears to us to have but one object in view, and that is the destruction of our organizations under the pretense of being aimed at the suppression of trading in "futures." The authors of these ill-conceived and, as we regard them, unconstitutional measures do not seem to comprehend that in destroying the exchanges and boards of trade they are taking away from the large class of agriculturists their greatest safeguard and protection, and that their attempts to stop speculation in grain would take from the farmers the balance wheel that has done more for the farmer's benefit than any legislation devised by man could effect. They seem to lose sight of the fact that for every seller there must be a buyer and for every buyer a seller, and that the supply and demand of the world regulates prices, which are never to be controlled by legislation.

Ex-President Roosevelt in a public address some time ago wisely said: "It seems to me that the one lesson more important for our people to learn than any other is, that no division of our people by classes or sections can work any good. In the long run, we are all going up or down together."

If we will substitute the word "legislators" for the word "people," the sentence is well adapted to the present case.

It were well to remember that the grain crops of the United States are well above the requirements of our population, and that a large proportion of the production is consumed at points far distant from those where the crops are grown, and that this surplus plays a large part in both interstate and foreign traffic. We have gone beyond the time when the trader bartered jackknives for skins, or when the settler planted sufficient seed to provide only enough bread for his family.

Production having passed local or home consumption, the natural evolution or development of trade required an adaptation of conditions, so that the surplus of our crops could be marketed advantageously, and the demands of that trade brought into play the forces required to handle greater quantities, and from these demands great railroads multiplied their tracks and with the advancement of ocean commerce, opened to the farmer the marts of the world.

Naturally, as trade expanded, new machinery was necessary to handle a greater surplusage of production, and as a part of this machinery the grain exchanges of the country grew out of nothing into that proficiency by which the surplus of the crops was distributed to the highest bidders with the least cost to the producer, to whom were brought the daily prices ruling in all parts of the civilized world, that he might be guided in his dealings.

These grain exchanges, which have enjoyed a fairly good reputation until recent sessions of Congress, seemed to fill an important need, and some in the large cities, near the point of production or near the chief export markets, have become recognized as peculiarly fitted for operations that are not common to all. Several of the large exchanges in great cities have become the centers of what is known as option trading as a natural result of very large handling of the actual grain through those cities, which have become known as the chief grain markets of the United States, as, for instance, Chicago, Minneapolis, Duluth, Milwaukee, Toledo, and New York.

Chicago, by reason of its central position, its lake and rail facilities for receiving and shipping, its many commercial advantages, and the enterprise of its merchants, takes the first rank as an option market because of its immense volume of actual or "cash" grain business. Minneapolis and Duluth are natural markets, by their geographical position best adapted to the handling of the immense spring-wheat crops of the Northwest, and by the natural evolution of trade supplied with facilities for storing, for milling, and for shipping, at a minimum expense, the gigantic trade resulting from the agricultural wealth of that section.

Milwaukee and Toledo, from their advantageous sites, offer peculiar advantages for marketing certain grains and their products and New York (with Buffalo practically upon its warehouse list, to furnish additional facilities as a depot and distributing point to the East and to Europe) and its great transportation lines, giving an outlet from the interior to the entire world, offers a market to every commodity. These places do large volumes of option trading because they do large volumes of actual grain business, one producing the other.

The grain exchanges in these marts have become a recognized necessity of commerce. The functions of an exchange are to centralize trading by giving a place of meeting to the individuals engaged in one branch of trade or such other branches as are naturally allied with that trade; to provide and disseminate news from other markets for the common information of its members; to regulate the trade by rules that have grown out of the common experience; and to adjust speedily any business controversies of members, or their clients represented by members. They systematize the business, distribute the cost of their maintenance over the many, and in every way work to the public good. Indirectly and directly they work to the benefit of millions of people

who know nothing at all of their workings. The laws of trade require to be as just as those of legislation, and to protect without imposing a bondage or constraint other than that of honesty and fair dealing.

We submit that there are evils in option trading, as there are evil features of all business transactions of great magnitude, but that it would be impossible to draw the line by a government decree abolishing all option trading, without doing greater harm to a larger number engaged in legitimate business than are now injured by the abuse of the privilege.

It would be putting an absolute and arbitrary power in the hands of men unable to discriminate and judge impartially. The grain business is conducted in a rapid manner and the telegrams are largely done in cipher. Any telegraph operator might hinder or prevent a merchant from consummating any trade by demanding an affidavit, in the preparation of which the time lost would cause the loss of the business opportunity. There would be no need for public grain elevators, because if the safeguards that now permit large and small merchants to hold hedged stocks of grain or flour were abolished, none but the very wealthy merchants could afford to take the risk of carrying stocks of grain on speculation, and the public elevators would either become private elevators for the monopolists or be done away with entirely. No legislator has the right to stigmatize associations of honorable merchants as commercial criminals, and the question arises whether he is not a greater offender against our liberties who endeavors to deprive commerce of the right to flow freely in its accustomed channels.

How is the postmaster to tell what letters are contraband without violating the sanctity of private correspondence, and if the postal officials are given that right over the mail of the grain merchants, is that not a violation of the letter and the spirit of the Constitution of what has been called free America?

The farmer, the miller, the merchant, the elevator man, and the exporter have combined to make the large grain exchanges their clearing houses, through the simple and natural process of evolution, just as the banking houses in large cities have simplified their exchanges with each other by the creation of central clearing houses. Instead of the first national or any other individual bank carrying its batch of checks that it receives daily to the various other banks of the city for payment, it deposits them with the clearing house, which credits the bank depositor with the total so deposited, and charges that bank with the total of checks drawn against that bank that have been deposited by other banks, settling upon the difference. Thus is the business that amounts to hundreds of thousands or millions of dollars daily expeditiously and simply cleared and settled. Quite as simply is the business of the grain exchanges settled by the exchange of contracts; if there were no exchanges, A would have to deliver his grain to B, who might have to tender it to C, etc., and all the delicate machinery that had been perfected by years of experience would be thrown away. It would be just as practical to require the merchant who owed for the wheat to pay the actual cash instead of by check, and just as sane to inquire whether the treasury note had bullion behind it each time that a transaction required the payment of money, and to force the people to take the gold or silver instead of the more conveniently handled bit of paper with its promise to pay that has always been regarded as money. The option trade or future is just as much the promise to pay as the treasury note, and as entirely legitimate. It would be a manifest impossibility and hardship to require of each buyer and seller an affidavit that he had the actual wheat to deliver or that his desire to purchase grain for future delivery would be based upon his actual need for the grain. This provision seems to be an attempt to intermeddle with private business that should be and by right is beyond the province of any government of a free people. So far as speculation is concerned, and especially the speculation in commodities, the efforts of most speculators in the grain markets have been to enhance the price of grain, by controlling, through purchase, the stock or supply, and to thus, directly or indirectly, benefit the producer rather than work to his injury. The consumers are usually those that actually suffer, but the desire to do away with the exchanges does not seem to come from them. Speculation is usually pretty well balanced, and helps to make stable markets and prices. In the old days before the exchanges, when the information was not at the service of all, it might have been and probably was possible for one man to control prices by reason of superior facilities for obtaining private information, but of late years and since the expansion of the exchanges the buyer and seller have equal access to price and statistical information, and if one gets any advantage over the other, it is because he is possessed of superior business acumen. Possibly the Federal Government might be invoked to legislate that all men should have the same business judgment and the same brain power; that would be as sensible and practicable as some of the other bills now sought to be placed upon the statute books.

Anyone that has studied the history of prices may readily see that every step forward has been to the advantage of the producer, and that he has gained by every movement of the grain exchanges to gather from and distribute to all parts of the world the

open prices in the world's markets, until, as at present, the smallest farmer may have free of charge in his daily or weekly paper, the information that fifty years ago was not to be obtained even by the favored few; for the exchanges have given free access to newspaper and trade representatives, and have distributed gratis the information, to obtain which an army of men has been well paid. That this information is now so easily to be had comes from concentration, organization, and development.

The factors of civilization are so many that it would be necessary to go into a lengthy dissertation to tell what methods have best served to attain the great ends, that once would have been deemed impossible of achievement; but speaking for the grain exchanges alone, it must be granted that the present day information as to the world's crops, the daily or often hourly fluctuations in the great markets of the world, the news of crop conditions, visible supply, world's requirements, and all the great mass of valuable statistics obtained by the use of the electric wire, is as much the result of human enterprise and cooperation as that electric wire over which it passes.

Hand in hand with the progress in the publication of information has the farmer found the railroad working to his ultimate benefit. Not so many years ago, less than twenty, the farmer in far Nebraska burned his corn in preference to selling it for 5 or 10 cents per bushel to buyers for Chicago, or the Atlantic export markets, and the railroad received 25 or 30 cents per bushel to carry the grain to the Atlantic seaboard. The progress of railroad development opened the road to the Gulf and now the farmer in Nebraska can sell his grain to exporters at New Orleans or Galveston for as high a net price as that paid those competitors in Ohio or Indiana who ship to the Atlantic seaboard. These advantages have come, like the information that the exchanges furnish, from development.

Undoubtedly some individual has, or individuals have, suffered from errors of the telegraph, or from exactions or oppressions of the railroad companies, and others have suffered from wrongdoing of members of exchanges, for man, the instrument, is only human and history is filled with tales of man's error, oppression, and crime; but despite all these, mankind has benefited from all three of these great instruments of wheels of progress.

If the Government is asked to break up the exchanges by prohibiting their dealings, why not legislate to take down the telegraph wires and tear up the railroad beds?

What benefit will it be to the farmer to abolish option trading in grain? At present the producer of a crop can read in his paper the daily prices of his grain, and get a better idea of its value in all parts of America or Europe than the producer of any other commodity in the world. He has the benefit of the world's competition, for the buyer can protect himself in its purchase by a hedging sale in any one of a dozen different markets. The buyer, if a miller, can buy large quantities in safety, because he can have his hedge open until he shall have milled his grain, or have sold his product for future milling and delivery. The exporter can hedge his sale of actual grain, which is not always obtainable for immediate shipment, by a purchase of a hedging option, or if he has a surplus stock of actual grain, can contract against it for a future delivery of a similar quantity, and thus minimize his risk in business, and the farmer, if not ready to deliver his grain immediately, although anxious to sell at the ruling price, can sell a proportionate quantity for future delivery in his nearest large grain market. His or their profit is then covered, and he is, or they are, not subject to the fluctuations or declines that may follow, for he is hedged, and all that is necessary for him or them to do is to unloose the hedge when delivering, milling, or shipping the actual grain.

If the exchange as a body were to deal as monopolists in grain and had the power to depress or raise prices at will, that would be a matter for lawful restriction, but as the exchanges are only meeting places for the operations of individual merchants embarked in the one business, and the individual dealing is governed by rules that prescribe honorable methods, dishonorable transactions are prohibited by stringent regulations or punished by expulsion; the exchanges are no more deserving of being put out of business than any other merchant or merchants are to be deprived of their right to buy or sell.

Through the exchanges the small dealer has been made the equal of the merchants of large resources, and the information at the command of one is not denied to the other. Speaking for our own organization we may truly assert that the bulk of our membership is composed of men who began in a small way, and whose business has grown from a retail trade into more or less large proportions. We have no monopolists, but do have knowledge of many members whose business ability and enterprise have been rewarded through the possession of such qualities.

The western or producing section of our country is represented upon our floor by brokers, who, as agents for western shipping houses, located either in the large centers or such cities as Peoria, Columbus, or Indianapolis, or a host of other places in the grain districts, offer grain for sale. No one is forced to buy or to sell, and the farmer is

just as free to trade directly with the merchants if he chooses to offer his grain direct to the eastern buyer.

If the exchanges were abolished, or option trading prohibited, where would be the benefit to the farmers? So far as our own exchange is concerned, we have no option trading upon our own floors to lose, for we have found it necessary to do our hedging in the exchanges at the large and active markets, such as Chicago or Minneapolis, where the concentration of that form of business, consequent upon their nearness to the grain fields, gives us the opportunity to find always the buyer or seller. We can get along without what some call the "speculative" trading, because there are better option markets open to us, whose figures come to us on the electric wire as rapidly as they can be recorded. We recognize the necessity for such trading as a part of our legitimate business, and the farmer would quickly find, if the trade were deprived of such facilities, the same necessity for his own protection. The power to hedge must exist somewhere, and, like water seeking its level, that location which has evolved from trade demand is the fittest. If you take away the power to trade, by which the exchanges are held together, you take away their support, and if the exchanges are abolished what will the Federal Government substitute for them? Can the Bureau of Agriculture take the place of thousands of trained and experienced merchants? And can the system which has developed from the combined experience and enterprise of several generations of trained merchants be equalled by that of a government bureau that is the creature of a single administration? It must be remembered that the great array of statistical information that is now furnished, was developed by the need for information to guide both the option and cash grain trading, and that if the occupation of the exchanges as a trading body is to be taken away the information will not be accessible, because there will not be the means to provide it. Then the farmer will be more at the mercy of the buyer of his grain than ever before, for he will lack the guidance of that information and be put back to the methods of 1850, or a time when everything was chaotic, and he shall have nothing but his own judgment to help him to tell what the value or price of his grain should be. Perhaps by that time under a government bureau system he may be taken over entirely by a department and sell only under that department's instructions, but it is more probable that within a very short time he would be as eager to get back that which had been legislated out of existence as his legislative agents are now to take it away from him.

We do not assume that under present conditions the exchanges are acting for the good of the farmer alone. Men enter the grain business as they do any other requiring the exercise of their wits and the investment of their capital, to make what they can out of it. We do assume, however, that the grain merchant is in as honorable a class as any other engaged in other branches, either of business or agriculture. It is not necessary for him to resort to fraud or chicanery to make a living or his fortune, and he is as much entitled to the fruit of his labor and the protection of the law as any other merchant or farmer. The grain exchanges have not been built upon the sandy foundations of dishonorable dealing, or they would have gone out of business like the disreputable bucket shops and lotteries long ago. The honesty of the country is not confined to any class, either farmers or legislators, any more than the wisdom of our people. The Government has no more right to prescribe one branch of honorable business than another, and could as legally interdict the purchase by a railroad of a quantity of rails for delivery during the year, or restrain a merchant from buying in the winter his stock of spring clothing for forward shipment, as it could a miller from buying his wheat or selling his flour in advance of the time of delivery, or an exporter from contracting to buy a cargo of grain for future delivery, or from selling it upon similar terms. Shakespeare says, somewhere, that "you do take my life when you take away the means of preserving it," and the grain business is our method of preserving life. The Constitution of our country, framed by men who were at least the equals of the present custodian of our liberties, wisely left something to the power of our States besides guaranteeing us certain inalienable privileges. Are we in this day of boasted enlightenment to go back to the sway of a despotism, masking behind the title of the United States of America?

SAML. L. MCKNIGHT, *President.*
H. DEWITT IRWIN.
JAS. L. KING.
WM. P. BUNYON.
C. H. BELL.

Mr. MERRILL. Mr. E. P. Peck, of the Omaha Exchange, wishes to make a brief statement with reference to the attitude of that exchange toward the bill.

The CHAIRMAN. Very well.

TESTIMONY OF MR. EDWARD P. PECK, OF OMAHA, NEBR., REPRESENTING THE OMAHA GRAIN EXCHANGE.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. State the character of your business to the reporter, so that it may be a part of the record.

Mr. PECK. I am here, Mr. Chairman, representing the Omaha Grain Exchange, and, in behalf of that exchange, which handles almost entirely cash grain, we wish to enter our protest against the passage of this bill, which in our judgment we feel would be very detrimental to the cash grain interests of Omaha and Nebraska.

That is all I care to say.

The CHAIRMAN. Would you mind answering a question or two, because I would like to get your views upon some matters?

Mr. PECK. No, sir. I would be glad to answer.

The CHAIRMAN. Suppose that the construction put upon this bill would be such that it would not be used, if enacted into law to interfere in any way with the hedging process as it is now carried on in the grain trade. In your judgment would it then interfere harmfully with the grain business?

Mr. PECK. If I understand your question correctly, do you mean would we be able to continue hedging as we now do?

The CHAIRMAN. Exactly.

Mr. PECK. I can not consider it would be detrimental if we are allowed to hedge as we do now.

The CHAIRMAN. Your protection in the market is largely in the facility that hedging gives you?

Mr. PECK. Yes, sir. We buy cash grain and hold it.

Mr. HAUGEN. In the event we pass this bill, would it be possible to hedge?

Mr. PECK. In the event you pass this bill I can not see how you could hedge.

Mr. HAUGEN. It would absolutely do away with hedging?

Mr. PECK. Absolutely, as I understand it.

Mr. MERRILL. I would like to ask one question: In hedging on grain, you do not contemplate delivery of that grain?

Mr. PECK. Very rarely.

Mr. BURLESON. But the hedging in grain is based on a real transaction in grain, is it not?

Mr. PECK. Yes, and no.

Mr. BURLESON. Will you give me a transaction in hedging that is not based upon a real transaction in grain?

Mr. PECK. I think I can.

Mr. BURLESON. All right; give it.

Mr. PECK. I have purchased 100,000 bushels of cash wheat, and——

Mr. BURLESON. You start right out with an actual transaction. That is the very point. You said you could give a case of hedging that did not involve an actual transaction.

Mr. PECK. If you will allow me to finish, I think I can make myself clear. May I finish?

Mr. BURLESON. Certainly you may finish. But I would like to have you understand the question before you start.

Mr. PECK. I understand it.

Mr. BURLESON. Then go ahead.

Mr. Peck. I purchased 100,000 bushels of wheat. I hedge that wheat in Chicago. I have no intention of shipping it to Chicago, because the milling interests North and South would make a better market for me than it would be to fulfill that contract with Chicago to deliver, and consequently in sixty days from now, instead of filling that contract with Chicago, I would ship that wheat either to Minneapolis or the South, so that when I answered your question and answered "Yes, and no," I did so because, when I made this hedge in Chicago, I knew I would never ship the wheat there.

Mr. Burleson. Yes; but, Mr. Peck, you start out with an actual transaction in actual grain, a bona fide transaction in actual grain. Now, my question was, Could there be a case of hedging without an actual transaction in grain, or a transaction in actual grain?

The Chairman. In other words, there would not be any occasion for the hedge, would there, unless grain was to be handled somewhere along the line?

Mr. Peck. There would be no occasion for me to hedge unless I had bought the grain.

Mr. Burleson. If this bill confines itself exclusively to transactions where there is no intention whatever on the part of the seller to deliver or the buyer to receive, and if it has no connection whatever with an actual transaction in a product, could it hurt you?

Mr. Peck. If I have got to make an affidavit to the fact that when I sell this wheat I am going to actually deliver that wheat, it does, because I have no intention of delivering it when I make the sale.

Mr. Burleson. But you have bought an amount of wheat before you attempt to hedge, and you do expect to receive that particular quantity of wheat which you are attempting to hedge?

Mr. Peck. Yes.

Mr. Burleson. That is all.

Mr. Peck. But I have no intention of filling that hedge when I make the sale.

Mr. John W. Snyder, of Baltimore, Md. You simply do that to protect your profit?

Mr. Peck. Yes, sir.

Mr. Haugen. The hedging is a matter of insurance? It insures you against loss?

Mr. Peck. Yes, sir.

The Chairman. Are there any further questions to be asked of Mr. Peck? If not, we will excuse you, Mr. Peck.

Mr. Merrill. Mr. Chairman, I now present Mr. E. J. Furlong, of the Milwaukee Exchange.

TESTIMONY OF MR. EDWARD J. FURLONG, OF MILWAUKEE, WIS., FIRST VICE-PRESIDENT OF THE MILWAUKEE CHAMBER OF COMMERCE.

(The witness was duly sworn by the chairman.)

Mr. Furlong. Mr. Chairman and gentlemen, I represent the Milwaukee Chamber of Commerce, an exchange of over 600 members, which deals very largely in grain, and a very large volume of cash grain is dealt in on this exchange. We merely wish to state that in our opinion this bill will work incalculable harm to the grain trade and kindred trade.

The CHAIRMAN. That is all the statement you wish to make?

Mr. FURLONG. That is all I wish to make.

Mr. MERRILL. Mr. Chairman, I now wish to present Mr. Hallet, of the Minneapolis Exchange.

TESTIMONY OF MR. F. A. HALLET, OF MINNEAPOLIS, MINN., DIRECTOR OF THE MINNEAPOLIS CHAMBER OF COMMERCE.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Hallet, please state your name and any official connection you may have.

Mr. HALLET. My name is F. A. Hallet. I am director of the Chamber of Commerce, Minneapolis, Minn.

Mr. Chairman and gentlemen, representing the Chamber of Commerce of Minneapolis, the greatest primary wheat market of the world and the milling center of the world, also the largest flax-crushing center, I desire to register a protest against the enactment of this bill into a law, as I think it would seriously interfere with our vast grain interests of Minneapolis and the Northwest. That is all.

The CHAIRMAN. Is there a future market in flax?

Mr. HALLET. There is a future market in flax in Duluth only.

The CHAIRMAN. Can you give any reason why there is not a future market in Chicago?

Mr. HALLET. Well, the flax interests are in the East, and the shipments of flax and the receipts of flax are, I think, larger at Duluth than in any other market of the country. The crushing interests are larger in Minneapolis than in any other center. The flax market has been established at Duluth and has continued there. We have traded in flax futures, but the trade was so very light and not on the increase that it has been abandoned entirely.

The CHAIRMAN. Do you know whether the millers of Minneapolis make a rule of hedging on the future market?

Mr. HALLET. They do, Mr. Chairman.

Mr. COCKS. Is there much fluctuation in the flax market?

Mr. HALLET. I do not know very much about the flax market; but there have been some very large fluctuations.

Mr. COCKS. In proportion to the wheat or other futures, what are the flax fluctuations?

Mr. HALLET. They are much greater.

Mr. HAUGEN. The price of flax has nearly doubled in the last six months, has it not?

Mr. HALLET. Yes, sir.

Mr. CHAPMAN. Where do the Minneapolis millers place most of their hedges?

Mr. HALLET. In their own markets. That is, they have done so in the past year.

The CHAIRMAN. I presume there is more wheat handled in Minneapolis than in Chicago?

Mr. HALLET. Yes; more wheat is handled in Minneapolis than in any other market in the country.

The CHAIRMAN. Can you give comparative figures?

Mr. HALLET. We will handle this year something like 100,000,000 bushels of wheat. I do not know how that compares with the Chicago receipts. The mills at Minneapolis this year will probably grind something like 16,000,000 barrels of flour.

The CHAIRMAN. Do you know how the future transactions on the exchange in Minneapolis compare with the same transactions in Chicago?

Mr. HALLET. Yes, sir.

The CHAIRMAN. Can you state that in volume?

Mr. HALLET. I could not make a comparison in volume. They are much lighter in Minneapolis than they are in Chicago.

The CHAIRMAN. Ought not the future transactions to bear some relation to the cash transactions, so that if you handle, say, four or five times as much actual wheat in Minneapolis as in Chicago, you ought, on that account, if this proper relation is maintained, to have a correspondingly greater volume in futures in Minneapolis?

Mr. HALLET. The entire hedging of the wheat handled in Minneapolis is not done in Minneapolis. The market at times is not broad enough.

The CHAIRMAN. What do you mean by that?

Mr. HALLET. It is not sufficient; the volume of trade is not sufficient to take the hedges.

The CHAIRMAN. That is, a man having sold flour for future will wish to buy contracts for future wheat which they will find nobody to sell?

Mr. HALLET. That might be the case at times. Of course the Minneapolis mills would probably place a transaction of that kind right in their own market, and make their purchase in the Minneapolis market; but the volume of trade at times is not large enough to take care of all the hedges that come in, especially at the time of the movement of the crop.

The CHAIRMAN. Is there very much really speculative business on the Minneapolis exchange?

Mr. HALLET. No. The amount of speculation in Minneapolis is not very large.

The CHAIRMAN. It is a very minor feature of your exchange?

Mr. HALLET. I would not say "minor." It is a very important feature.

The CHAIRMAN. In your judgment is there any business importance attached to the purely speculative transactions as distinguished from hedging transactions?

Mr. HALLET. I do not quite understand your question, Mr. Chairman.

The CHAIRMAN. Could you eliminate the pure speculation from your exchange without interfering with any other of its functions?

Mr. HALLET. I do not think you could.

The CHAIRMAN. You think the maintenance of the market in which men can speculate simply on margins, with no thought of either receiving or delivering grain, is necessary to the maintenance of the general market?

Mr. HALLET. I do, Mr. Chairman.

The CHAIRMAN. In what way is it necessary—financially?

Mr. HALLET. That is one way, and it furnishes a broader market. The speculator comes in and acts as a middleman and serves as a sort of balance between the producer and the ultimate consumer.

The CHAIRMAN. You can not elaborate on that? That about covers the ground, in your judgment?

Mr. HALLET. Yes.

Mr. CHAPMAN. I would like to ask you one question. You are a grain broker, are you?
Mr. HALLET. Yes, sir.
Mr. CHAPMAN. You sell futures?
Mr. HALLET. Yes, sir.
Mr. CHAPMAN. What proportion of your business, as you estimate or know, comes from the country towns or from the country contiguous to Minneapolis?
Mr. HALLET. You mean speculating in futures?
Mr. CHAPMAN. Yes.
Mr. HALLET. I could not say.
Mr. CHAPMAN. You have business of that kind?
Mr. HALLET. Yes, sir.
Mr. CHAPMAN. What advantage would there be to a man in a small town contiguous to Minneapolis to buy from ten to twenty thousand bushels of wheat of you? Can you explain what advantage that would be?
Mr. HALLET. I do not think I could elaborate or explain that.
Mr. HOWELL. Do the banks that accommodate you encourage you to sell futures on hedges?
Mr. HALLET. Yes, sir; they do.
Mr. HOWELL. Does it not involve the carrying of an extra amount of capital to carry those dealing in grain as well as those dealing in futures?
Mr. HALLET. It certainly does.
Mr. HANNA. In the Northwestern country most of the grain is bought by the line elevators—in Minnesota and the Dakotas, is it not?
Mr. HALLET. The farmers are becoming quite a factor now.
Mr. HANNA. I know; but they are farmers' elevators. When a man buys a thousand bushels of wheat he wires it into his company or his commission house, and that is sold?
Mr. HALLET. Yes.
Mr. HANNA. Now, then, it may be possible that there may not be cars enough at the right time to get that grain out and make the delivery at that time, and then that wheat must be bought in and sold at some future time?
Mr. HALLET. Yes, sir.
Mr. HANNA. As I understand it, that, in a sense, might be called a "speculation," might it not?
Mr. HALLET. Yes.
Mr. HANNA. But as to drawing a line between that and purely speculative buying, and the further fact of these elevators and the country farmer elevators and the country millmen, and all these people who buy wheat in the country and sell wheat in Duluth and Minneapolis, is it not a fact that the wheat men and producers protect themselves by buying and protecting themselves for future delivery? I know that these people will buy, say, 50,000 bushels of wheat, and get it in their elevators and can not get cars; and they must sell that wheat to arrive or for some future delivery or buy on a wide margin from the farmer, must they not?
Mr. HALLET. Yes, sir.
Mr. HANNA. If they could not sell that wheat ahead they would have to buy on a good deal wider margin than they would have to do otherwise?

Mr. HALLET. Yes.
The CHAIRMAN. There is nothing in this bill to prevent that kind of a transaction.
Mr. HANNA. It is hard for me to make up my mind as to how you are going to divide the line between speculators and those engaged in legitimate business. I have an elevator to-day with a capacity of 60,000 bushels. I could not get cars in 1907 to get that wheat loaded out. I sold it for May delivery, and later I could not make deliveries until late in June and July. How is anyone going to tell which one of these sales is legitimate and which one is speculation?
Mr. BURLESON. Every one of those is a bona fide transaction in actual grain.
Now, I would like to ask the witness a few questions. You spoke, Mr. Hallet, in response to the question from Mr. Haugen, that flax had doubled in value in the last six months. Do you know why?
Mr. HALLET. I do not think I made that statement.
The CHAIRMAN. I think it was another witness made that statement.
Mr. BURLESON. You are the only man that spoke about the flax market.
Mr. HALLET. I did not say that the flax market had doubled in the last six months. I did not make any such statement as that.
The CHAIRMAN. I think Mr. Haugen made the statement that the price of flax had doubled in the last six months.
Mr. BURLESON. The fact I am trying to get at is as to the material increase in value. I do not care whether it has doubled or not.
Mr. HALLET. Yes.
Mr. BURLESON. Why?
Mr. HALLET. I do not know much about the flax market.
Mr. BURLESON. If it has advanced, is it not because there is a less supply or more of a demand, one of the two?
Mr. MERRILL. The flaxseed market made its great advance because of information from the Argentine that the crop had failed there. Argentine, you know, is our greatest competitor in the growing of flax.
Mr. BURLESON. I accept that statement.
You say you deal in futures on your exchange?
Mr. HALLET. Yes, sir.
Mr. BURLESON. On wheat?
Mr. HALLET. Yes, sir.
Mr. BURLESON. How many grades of wheat are embraced within your contracts?
Mr. HALLET. Only one grade.
Mr. BURLESON. What grade is that?
Mr. HALLET. One northern.
Mr. BURLESON. There is only one grade that could be delivered under the terms of your contract if delivery was demanded.
Mr. HALLET. No. 2 northern could be delivered at a difference of 3½ cents.
The CHAIRMAN. Who fixes that difference?
Mr. BURLESON. How do you arrive at that difference between the value of those two grades?
Mr. HALLET. That is about the difference that exists in the cash price of the No. 1 and 2.

Mr. BURLESON. That is the commercial difference fixed by the law of supply and demand. That is the difference in the market price of the two grades, is it?

Mr. HALLET. Yes, sir.

Mr. BURLESON. And if the market price changes you make a change in that difference, do you not?

Mr. HALLET. No, sir; we do not.

Mr. BURLESON. How long does that difference obtain?

Mr. HALLET. You mean how long has it been in existence?

Mr. BURLESON. Yes.

Mr. HALLET. I think something like a year or so.

Mr. BURLESON. Who fixed it then?

Mr. HALLET. I think it was fixed by the action of the board of directors of the chamber of commerce.

Mr. BURLESON. And it was based upon the difference of the value of the two grades of wheat—the market value, I mean?

Mr. HALLET. The crop of the Northwest in the last two or three years has been of a poorer quality. No. 1 northern wheat has been very scarce, and that was the object of making No. 2 apply on contracts with that difference. In the last two or three years past the percentage of No. 1 northern wheat raised was very small.

Mr. BURLESON. What percentage of this northern wheat——

Mr. HALLET. I think this year the crop will run 60 per cent of No. 1 northern. That is a better crop than for some years past.

Mr. BURLESON. Theretofore it contributed only about 1 per cent of the crop, did it?

Mr. HALLET. Oh, no; I do not think we ever had a crop of so small a per cent as 1 per cent of No. 1 northern. One year we had a crop of 80 per cent of No. 1 northern. This year I think the crop is fully 60 per cent of No. 1 northern.

Mr. LEE. Is that a hard wheat, a spring wheat?

Mr. HALLET. Yes, sir.

The CHAIRMAN. I understand your contract calls for the delivery of No. 1 northern, and the next grade is No. 2 northern, and if it is tendered it must be accepted, but the penalty of 3½ cents a bushel is charged?

Mr. HALLET. Yes, sir.

The CHAIRMAN. That difference has been fixed, you believe, by your board of directors?

Mr. HALLET. Yes, sir.

The CHAIRMAN. Is there anything in your by-laws providing for the period during which such a difference shall be fixed—once a year or once in two years?

Mr. HALLET. No, sir.

The CHAIRMAN. It is fixed from time to time to suit the conditions that the board of directors regard as necessary?

Mr. HALLET. Yes, sir.

The CHAIRMAN. How many grades of wheat come into your market?

Mr. HALLET. This year I presume we have No. 1 northern and No. 2 northern, and No. 3, and rejected. Besides that, we receive winter wheat, No. 2 hard winter, and some of the other lower grades.

The CHAIRMAN. Then how are the grades, aside from those deliverable under your board of trade contract, delivered in? They are handled altogether by sample, are they?

Mr. HALLET. Yes, sir. The sampling department is under the supervision of the State of Minnesota.

Mr. HAWLEY. The grades are determined by the State, are they?

Mr. HALLET. Yes, sir.

The CHAIRMAN. But if a man buys on an open contract without any specifications on your exchange, he would expect to receive or would receive No. 1 northern or No. 2 northern?

Mr. HALLET. Yes, sir.

Mr. HAUGEN. You state that the Minneapolis mills would grind about 60,000,000 barrels?

Mr. HALLET. We will grind about 16,000,000 barrels.

Mr. HANNA. Where wheat is shipped in, for instance, where a country elevator wires in and says, "Sell a certain amount of wheat," of course that is wheat of contract grade, No. 1 northern. When they come to make the delivery it may be No. 1 northern or it may be No. 2 northern. Then that wheat is graded by sample?

Mr. HALLET. Yes.

Mr. HANNA. The way you would do would be to buy in the contract grade?

Mr. HALLET. Yes, sir.

Mr. HANNA. You would buy in the amount at the contract rate?

Mr. HALLET. Yes, sir.

Mr. HOWELL. In cases where they are running a corner on the Chicago market, and the price of futures runs up, say, from 20 to 50 cents a bushel, does not that really prove a menace instead of a protection to the dealer? Is not that an imposition on the seller that almost overtaxes his ability to pay?

Mr. HALLET. That is not very often conducted in the grain market.

Mr. HOWELL. A man who holds these futures has been compelled to advance sums of money to protect his trade beyond any reasonable expectation he might have had to engage in that business?

Mr. HALLET. I do not know of any cases of that kind.

Mr. HOWELL. In the case of the Leiter wheat deal in Chicago, the prices ran up to one hundred odd a bushel and over. Instead of being a protection to the dealer, would not this actually be a menace to the dealer in actual wheat in such a case?

Mr. HALLET. I do not know. The Leiter deal was before my time in the grain business. I was not familiar with the details of it.

The CHAIRMAN. Well, take the conditions that prevailed under the Patten deal. That was only a year ago. Following out Judge Howell's question, it will serve as an illustration just the same. If the man who had hedged on May wheat when prices ran up to 150 or so, would they have suffered from it?

Mr. HALLET. I do not think there was any great suffering at that time, Mr. Chairman.

Mr. HANNA. What is the margin that is generally put up?

Mr. HALLET. There is no fixed margin.

Mr. HANNA. It depends on the credit of the man to a great extent?

Mr. HALLET. Yes, sir.

The CHAIRMAN. It is usually 5 cents a bushel.

Mr. HALLET. There is no fixed amount. As you say, it depends entirely on the financial standing of a man.

Mr. HOWELL. How much more money can you borrow on wheat that has not been hedged than on hedged wheat, from your bank?

Mr. HALLET. I should say we have always found it very easy to borrow money within 90 per cent of the amount.

Mr. HOWELL. Of hedged wheat?

Mr. HALLET. Yes, sir.

Mr. HOWELL. If wheat was not hedged, how much could you borrow on it?

Mr. HALLET. I do not know. We have never tried to borrow money that way; but I should say 50 per cent.

Mr. HOWELL. When you sell a hedge in the market, about how many cents per bushel do you lay aside in your calculation to protect that hedge until the time of delivery?

Mr. HALLET. I do not know that there is any fixed amount. We do not lay aside any fixed amount.

Mr. HOWELL. Then, if there should be any sudden advance in the price of futures, you would be called upon for vast sums of money that you had not made any calculation on meeting?

Mr. HALLET. We would go to the bank, I suppose, in a case of that kind, if the wheat is hedged. You can always get money on hedged wheat.

Mr. HANNA. You were speaking a moment ago about flax. As a matter of fact, there is not a very large amount of flax raised in the United States, is there?

Mr. HALLET. No. The amount is not very large.

Mr. HANNA. The consequence is that it is much easier to control the flax market than the wheat or any other grain market?

Mr. HALLET. Yes, sir.

Mr. HANNA. In Minneapolis and Duluth there are only two or three houses that make a specialty of flax, are there not?

Mr. HALLET. I suppose there are more than two or three.

Mr. HANNA. I had the idea that there were two or three houses that make a specialty of it.

Mr. HALLET. Yes, there are those that make a specialty of it. I am not familiar with the flax trade. I think Mr. Ames, of Duluth, is familiar with it.

Mr. BURLESON. You will pardon me if I ask a question that can not be answered, because I have no familiarity with this business. Suppose you buy 10,000 bushels of wheat and want to hedge it, and you want to hedge it on the Chicago Board of Trade. How much do you have to put up to hedge that 10,000 bushels of wheat?

Mr. HALLET. Well, as I said before, there is no fixed margin on a transaction of that kind.

Mr. BURLESON. Well, have you ever had a transaction of that kind, Mr. Hallet?

Mr. HALLET. Yes; we have.

Mr. BURLESON. How much did you have to put up?

Mr. HALLET. It depends entirely upon the fluctuations of the market sometimes.

Mr. MERRILL. To help Mr. Burleson out, does it not depend largely on the financial standing of the party?

Mr. HALLET. Yes.

Mr. BURLESON. Suppose he has no financial standing at all, but just has money.

Mr. MERRILL. Theoretically, it is 5 cents a bushel.

Mr. BURLESON. That is what I am trying to get at.

The CHAIRMAN. I understand Mr. Merrill will answer questions as to the details of these exchanges.

Mr. BROOKS. Is it customary usually for the miller to sell his flour before he gets the wheat from which to make it, and hedge in the open market, and the merchant from whom he gets his flour also hedges that same wheat?

Mr. HALLET. I think that is done to a great extent.

Mr. BROOKS. You could not say to what extent?

Mr. MERRILL. Mr. Hallet, you have a grade in your market known as No. 1 hard, and that is higher than No. 1 northern?

Mr. HALLET. Yes.

Mr. MERRILL. And that is deliverable on a No. 1 northern contract if the holder elects to do it?

Mr. HALLET. Yes.

Mr. MERRILL. Also, as to 3½ cents difference between No. 1 and No. 2, that is in favor of the buyer, is it not? It would be against the seller. So that if the buyer had to take it, it is not more than the actual market, but rather under, so that he would suffer no loss?

Mr. HALLET. Yes.

Mr. MERRILL. Thank you.

The CHAIRMAN. I believe that is all.

Mr. MERRILL. I will now present Mr. George H. Davis, of the Kansas City Exchange.

TESTIMONY OF MR. GEORGE H. DAVIS, OF KANSAS CITY, MO., VICE-PRESIDENT OF THE KANSAS CITY BOARD OF TRADE.

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Davis, give your name and business connection.

Mr. DAVIS. My name is George H. Davis, and I am vice-president of the Kansas City Board of Trade.

Gentlemen, it is not my intention to take up much of your time. I am simply here to represent the Kansas City Board of Trade and give you our ideas as to the effect that the passage of this bill would have.

We receive in Kansas City about 50,000,000 bushels of wheat and from 30,000,000 to 50,000,000 bushels of corn. Our future trading has been in existence for about ten years. We tried for a good many years to bring grain to Kansas City without a future market, but we were unsuccessful.

The CHAIRMAN. Do you know why you were unsuccessful?

Mr. DAVIS. We had no place in which to place hedges, and it was dangerous to place them in New York or Chicago or St. Louis or in any other market.

The CHAIRMAN. How was it dangerous?

Mr. DAVIS. It was dangerous because one of our largest buyers of corn is the State of Texas, and every year they buy corn from February on. The markets in the South will pay more for corn in Kansas City oftentimes than they would pay if the corn was in Chicago. Having your hedging sale in Chicago would do you no good, because it would cost you 6 cents freight to deliver, alone. The corn is hedged practically as much in Kansas City as in Chicago, but it is necessary to have your elevators in Kansas City to get it out promptly. For instance, the corn this year is largely No. 4 corn, on account of

dampness and moisture, and it is necessary to put that corn through a drier before shipping or before the southern buyer would take the corn. Pending the shipment it would heat and become sour in a short time, and for that reason it is necessary to dry it, and that is very expensive, and it would cause delay. You can readily see that with 10 or 15 firms doing business it would take them practically a month or twenty days to dry a thousand bushels. They have to begin doing that in January in order to be ready for the trade in February and March and April as it comes along.

The CHAIRMAN. So that the difficulty of getting corn to Kansas City prior to the inauguration of your future market was wholly a question of financing?

Mr. DAVIS. Not wholly a question of financing, but largely a question of bringing the corn in there, and no one being willing to put away anywhere from 400 to 1,000 bushels of corn without a legitimate place to hedge it. The banks were not willing to loan money on that corn unless at two-thirds of the value. Now, under the present system, the banks are willing to loan to recognized firms as high as 95 per cent of the value of the corn or wheat, as the case may be.

Along that line I may say that I mentioned the fact of this bill's coming up to a banker the other day. I conversed with the vice-president of a bank on the subject, and asked him to write me a letter the day I left; and with your permission, Mr. Chairman, I would like to read that letter. This is from the First National Bank of Kansas City, and, as the chairman knows, it is one of the largest banks in the West. (Reads:)

FIRST NATIONAL BANK OF KANSAS CITY, MO.,
February 16, 1910.

MR. GEORGE H. DAVIS,
City.

MY DEAR SIR: Referring to our conversation regarding the Scott option bill, it is our opinion that this would seriously interfere with the grain business in this city. This has grown to very large proportions under the present method and we believe has increased the business of the banks to a very large extent.

If this bill were passed, it is our opinion that it would destroy three-fourths of the grain business in this city, leaving the business to be handled by a few interests who would, it seems to us, have a monopoly in handling the grain which came through Kansas City. This being the case, we would regret the passing of the bill, and we hope that there will be no difficulty in defeating it.

Yours, truly,

H. T. ABERNATHY, *Vice-President.*

Now, in regard to the trade in futures, personally, I may say that my partner and I, forming a corporation, are engaged in both branches of the business. We handle carloads on consignment, on commission from the farmer, which we sell there in the market. On the other hand, we are members of the Kansas City Board of Trade and the Chicago Board of Trade, and we handle trades in futures. We handle the hedges for some of our elevator people. We handle hedges for some people in the country, and for the large owners of mills in the city, both ways. One particular mill that I have in mind is on both sides of the market. We took in December 250,000 bushels of wheat in December contracts, and have been carrying that wheat along, largely financed by this particular bank that I have referred to, on account of that mill having made flour sales which they will not ship until February and March and April.

Now, they also at times are large purchasers of the futures, just as they were in that case. They sold last July, when we were having floods out our way, and cash wheat was selling in the neighborhood of $1.30 and September wheat was selling at $1.10. The foreigners were very much excited over the situation here, and they bought flour largely for September, October, November, and December, and January, clear up into March shipments. This mill could not sell those people flour unless they had some place to protect themselves. But the grain grower in the West and the speculator were willing to sell wheat for September delivery, when the new crop would be in, for $1.05 or $1.10 a bushel, enabling that mill to buy through us for the future. This particular mill sold about 100,000 barrels of flour, and of course the other mills in the city were doing the same thing.

Now, in August and September, when we get in at Kansas City on Monday in the neighborhood of 1,000 carloads of wheat, that wheat is rushed in there, and the reason the price did not break was on account of these mills having made these sales, and they were willing on near-by shipments to sell out the futures that they had bought, and take on the cash article from the farmer, thereby making a market that they would not otherwise have had. The foreigner will only buy flour when he is in the notion of buying it, and he will buy large quantities; and it is necessary for these mills, if they are going to do an export business, to sell it to him when he wants it and to protect themselves in the future market. They could not go out and say, "I want to buy 5,000 bushels of wheat from you," so as to sell this flour. It would take weeks to do that. They could not answer these cables making them offers of so much and so much. They must accept them within a few hours. The only way they can do that is to have their commission men step into the pit, where they can buy from 5,000 to 100,000 bushels of wheat in a few minutes.

While these mills are buying, there are also elevators. There is a limit to what the railroads can handle. The larger mills would not be able in all probability to handle more than 150 to 200 cars of wheat. They have not the necessary storing capacity. After these mills have filled up, there comes a demand for this wheat. The elevator man buys it and sells the future against it. Oftentimes, when we have a thousand cars of wheat in there, our future market and our cash market is advanced 2 or 3 cents a bushel. Why? Because speculators have been told of a famine somewhere, or a trouble somewhere, or a damaging rain in the Northwest, and they take hold of the future market and put it up, and the elevator man is enabled to buy the No. 2 or No. 3 or No. 4 wheat and put it in the elevator and sell the future against it, regardless of how many cars there are, because we have 7,000,000 bushels of elevator capacity in Kansas City. That prevents the market from being demoralized.

Those are legitimate hedging transactions. But if this bill becomes a law and you eliminate the speculator, whom will you sell that wheat to? It is the speculator who believes that next spring wheat is going to be $1.25 a bushel. It is not the elevator man. If he can buy this cash wheat when everybody wants to sell it, and sell it over here in December futures at a cent a bushel higher, and then dispose of it in May, that is all he wants. He does not care whether wheat goes up or down, but it takes the speculator to take those cases, and that is why we need the speculator in Kansas City.

We also have another class of traders in Kansas City; that is, what we call a "spreader." That is, when the movement is very heavy and the market lags down and almost goes to pieces, this spreader will buy in Kansas City and sell in Chicago, and thus lighten the situation, taking this off the market in Kansas City and selling it in Chicago, because he knows he can ship it to Chicago at a profit. That is why we need the spreader and the speculator, to take these hedges at that time.

Last Monday in Kansas City we had 268 carloads of corn. The demand for corn in Kansas City for local consumption is about 15 or 20 cars a day. Somebody must take that corn to keep the price from going very low. The price, as I remember, did not vary from one-half to a quarter of a cent from Friday to Saturday. There are a lot of cattle feeders who want this corn. They come in there and buy this corn, and the spreaders buy the futures, and the speculator, who simply thinks corn is going to sell at 80 cents, buys it, and that enables the elevator man to buy No. 3 corn at 60 cents and sell it at 65 cents, and, taking the moisture out, it will make No. 2 corn. If he does not sell that corn in Texas, he can deliver it to the future market. In the meantime he can go to the bank and borrow 95 per cent of the value of that corn until he is ready to ship it on.

We feel that this bill would make it dangerous to be in the grain business in Kansas City. The elevator man would pursue the same policy, except that he could not hedge. He would have to stand on it, not hedging. He would have to have two or three times the profit he is now getting, because he would not be able to handle more than half the business, because his financial standing would not admit of his borrowing more than two-thirds of the value of that grain—in some cases not more than half the value—because the bankers would have no means of disposing of the grain promptly if the man could not pay his loan; and in the course of time the business would resolve itself into about for or five firms carrying on the grain business, and the smaller grain dealer, who promotes competition and keeps up the price and makes possible the handling of grain at a profit of a half or a quarter of a cent a bushel, would be eliminated, and the same condition would prevail as prevails in live stock.

The CHAIRMAN. How long have you been operating in Kansas City?

Mr. DAVIS. Personally I have been a member of the chamber of commerce since 1896.

The CHAIRMAN. Has speculation increased or diminished during that time?

Mr. DAVIS. Of course we have always made contracts. We have had no regular future trading until in the neighborhood of ten years ago; and trading, of course you understand, depends largely on conditions, whether there is a crop failure or some unusual disturbance in the country. But as a general proposition our trade is increasing.

The CHAIRMAN. Well, that is natural; but I am referring particularly to the purely scalping operations—are they increasing in proportion or out of proportion to the actual transactions on the board?

Mr. DAVIS. Why, I would say about in the same proportion. It takes all kinds of business to make the general business run smoothly.

The CHAIRMAN. Would you care to give an estimate of the amount of purely speculative business that your firm handles as compared with its total volume of business?

Mr. DAVIS. Well, our firm handles a great deal of business through the markets of Chicago, St. Louis, and Minneapolis. In the Kansas City market we handle hedges and we handle some country trade; I imagine our country trade would probably be in the neighborhood of 15 per cent of our total business in futures.

The CHAIRMAN. Is it true that the speculators, as a rule, take the hedges?

Mr. DAVIS. Yes; the speculators and spreaders; they are the only operators, except in the instance of the millers.

The CHAIRMAN. Theirs are the only operations or transactions whereby a grain dealer who wishes to sell and the miller who wishes to buy would not offset each other?

Mr. DAVIS. Because they never want it at the same time. For instance, the grain dealer, in all probability, would place his hedge at the opening, of course, anywhere from 9.30 until 11 o'clock, and the miller, as I understand it—if I am not mistaken in the exact figures—has until about 1 o'clock to answer on his cables, which gives him an opportunity to select a weak spot in the market to place his hedges. There are times when the millers are out of the market for two or three weeks at a time, when there is absolutely no demand for flour or when the price of wheat is too high and they are waiting for a lower price; if we did not have the future market so the elevator men could buy the wheat and sell it, that would be unfair. If the elevator men could not buy a hedge, they would have to wait until the demand for the cash article came up. When the miller wants it there is a great demand for it, but when he don't want it he won't have it at any price.

Mr. BURLESON. I understand Mr. Merrill is going to appear before the committee next week.

The CHAIRMAN. Yes.

Mr. MERRILL. The president of the Chicago Board of Trade, Mr. A. S. White, will be our next witness. I would like to say to the gentlemen of the committee that Mr. White is distinctly a provision exporter; he is not identified with the grain trade; therefore he will not be competent to answer some of the intricate questions you might ask relating to grain. I would suggest that such questions be left to be propounded to Mr. Cushing, of New York, or Mr. Snyder, of Baltimore, or to myself, when I appear next week.

Mr. A. S. White, president of the Board of Trade of the city of Chicago, and of the firm of A. S. White & Co., was duly sworn.

The CHAIRMAN. Mr. White, you are a dealer in what?

Mr. WHITE. Provisions. Mr. Chairman and gentlemen, my knowledge of board of trade affairs is more or less general; my own special business is in provisions, and, bearing in mind, sir, the question which you put to Mr. Fitch yesterday, which, if I remember rightly, was: "Is there any reason why there should be future trading in provisions or in pork——

The CHAIRMAN. That does not apply to beef, was my question.

Mr. WHITE. Well, I will therefore state very briefly the relation which trading in futures bears to that particular branch of business. The principle is the same, and it is equally important, as it is in grain, to have a constant, active, open market, in which the manufacturer,

the merchant, the exporter, and the speculator may trade at the price which is established by supply and demand; a market whose quotations are widely disseminated, so if there should be any effort on the part of an individual, corporation, or a coterie of individuals to influence the market unduly, upward or downward, it would attract a large number of buyers or sellers, as the case might be, and thus equalize values in accordance with natural conditions. As an example, as it relates to the provision market, let us take the case of a packer who, in a moderate way of business, is operating in Illinois, in Iowa, or at some other outside point, when hogs are being freely marketed, say killing 2,000 a day, his daily sales of the product at such a time do not amount to more than half of what is being laid down in the cellars, so that his stock is rapidly accumulating, and as he can not then sell an increased quantity to jobbers and merchants in the South or the East he has come to the point where he feels that the risk is greater than he is warranted in taking, and he must therefore curtail his buying of hogs or shut down his factory; but he has the Chicago quotations before him. We will suppose that this is in the month of December or January, and he finds that the price for May delivery in Chicago is some 35 or 40 cents per hundred pounds higher than the price, or the immediate delivery price, and he figures that he can make a little money; so instead of shutting down he wires into Chicago and sells some lard and meats for May delivery there. His banker, knowing that he has the stuff sold, is willing to extend or even increase his loans, so he is enabled to go on buying hogs and working his factory instead of being shut down. He now has two strings to his bow; he can wait until May comes around, ship in his products to deliver on his contracts in Chicago, or, as not infrequently happens, in forty or fifty days conditions have changed, the receipts of hogs have become smaller, and in consequence the southern merchants are more confident buyers, and he sees that the price for the spot stuff is within 5 or 10 cents of the May delivery which he originally sold at 40 cents over; he therefore turns around and sells, say, 100,000 pounds of meats to go direct to the South, and at the same time buys in those 100,000 pounds for May delivery in Chicago, to take care of his contract there; he is saving something in the expense of carrying to May, something in the expense of shipping and delivering in Chicago, and he thereby nets 25 to 30 cents per 100 pounds more than if he had sent that identical stuff into Chicago for delivery, therefore making a profit of $250 to $300 more on every 100,000 pounds that he can so dispose of.

Now, let us look at the other side. As exporters, we make offers every day to England and in the north of Europe, subject to a reply—I should say offers that are based on the closing prices in the Chicago market—subject to a reply before the opening of the market the next morning. When we receive orders for immediate shipment or irregular shipment, and the stocks are plentiful, we can execute those orders and buy without any reference whatever to the future market, except to the extent that the packers who are selling them always base their selling price upon the May or whatever future month it may be; but if we receive an order to buy meats for shipment spread over two or three months, then we have to protect ourselves by making a purchase for future delivery in the pit. For example, in the fall months, say September and October, the north of Europe

and Scandinavia are pretty considerable buyers of short, clear sides for shipment and spread over the winter months. If we should receive an order to-day for 600 boxes of those sides for shipment. 200 boxes in November, 200 in December, and 200 in January, we should buy 300,000 pounds of short rib sides for January delivery; when November came around—the receipts of hogs at that time having been larger and the several packers in Chicago, or other parts of the country having the meats for sale, and we can get them for immediate shipment—we would then buy 200 boxes to provide for our November shipment and buy 100,000 pounds for May delivery, that 100,000 being the same weight as the 200 boxes, and so on until we had completed the contract. When stocks are large, particularly in the winter time, in a season when there is an abundant supply of hogs, and there is consequently a carrying charge covering storage, interest, and insurance, the full carrying charge, we frequently buy a considerable quantity of lard which we ship to our Liverpool house and sell an equal quantity of May delivery against it. We are thus in a position where we can offer to Liverpool lard for arrival on certain dates, as it is required, and as we sell 250 or 500 tierces in Liverpool, we buy that 250 or 500 tierces for May delivery to provide for the fulfillment of our contract in Chicago.

The CHAIRMAN. Who is the other party to such a transaction? A speculator pure and simple?

Mr. WHITE. It may be a speculator who sells that to us, it may be a packer, I can not tell; I never know who in the pit makes the sale except the broker with whom I am doing business.

The CHAIRMAN. If you will pardon me I will make this suggestion: These matters have been before us for several days and the committee, I think, understand pretty well the practice of hedging and the necessity for it.

Mr. WHITE. Well, I will eliminate that.

The CHAIRMAN. So that what we would like now is to have your judgment or opinion upon the purely speculative features of your business and its relation to entirely legitimate transactions.

Mr. WHITE. I will endeavor, sir, to make that clear, because I feel that the trading for future delivery is of the utmost importance to the provision trade. I think it is necessary to have a wide market, a broad market, in which there is plenty of trading, a place where buyers and sellers, be they in Chicago, or any part of this continent, or in Europe, can, through their representatives, meet and trade. The prices of that market are published and they are watched closely by producers, manufacturers, merchants, exporters, importers, and bankers on two continents. You can pick up your morning paper, whether you be in Chicago, New York, Liverpool, London, or Antwerp, and find the Chicago prices, but if anything is done—which I believe that bill which you read yesterday would do—to end that trading in future delivery you would not be able to find or to learn anything more about the wholesale prices of provisions than you can to-day concerning the value of beef. I would like to say here, sir, and I say it unqualifiedly, that there is nothing that stands between the provision trade, along with the great hog industry of this country, and complete domination by a few large concerns, nothing that stands between them and conditions that obtain to-day in the beef and cattle trade that you referred to, except having an open, broad, active

market for trading in future delivery, as well as for immediate delivery on the floor of the exchange.

The CHAIRMAN. Why, as a matter of fact, has that market never been established in the matter of beef?

Mr. WHITE. Beef, I presume, does not lend itself to that very well; it is a more perishable article. We trade in cured meats; they have to be fully cured.

The CHAIRMAN. You do not trade in cured meats except of the hog, do you?

Mr. WHITE. The hog only.

The CHAIRMAN. Isn't corned beef relatively as staple an article as pickled pork?

Mr. WHITE. The corned beef is a staple article, but the amount of that made and sold is but a very small percentage of the beef business; it is made by taking portions of the meat that are less desirable, like the plates and briskets, like a by-product.

The CHAIRMAN. Do you think that the future market in pork has resulted in placing that commodity on any different basis, as regards the connection between the consumer and the packer, than exists in regard to beef?

Mr. WHITE. Yes, sir; the fact that there is a trading for future delivery makes the price of it public; it is easy for a great number to trade, and it keeps the trade alive; whereas, if there was no such market hundreds would be worked out of the business and it would be in the hands of a few, just as the beef business is.

The CHAIRMAN. On the assumption that there is a packing trust—without committing you to that proposition one way or the other—your judgment is that such a trust has less control over the pork products than over the beef products.

Mr. WHITE. I know it is alleged that there is a beef trust, but of that I have my doubts.

The CHAIRMAN. I was not asking you to commit yourself on that proposition; I was just asking your judgment as a provisioner, whether the alleged packing trust has less control over pork products than it has over beef products? I ask that question for this reason: A moment ago you said that in your judgment if we did not have a broad market created and the speculator in provisions we would very soon, you thought, be in the hands of a great combine on all these things. We have that broad market in pork products, and I desire your judgment as to whether we are in the hands or out of the hands of this big combine as to those products?

Mr. WHITE. Yes, to a very considerable extent, and if it was not for that trading the conditions would be the same in the provisions as they are in the beef business.

The CHAIRMAN. Including pork?

Mr. WHITE. The smaller people would gradually be dropping out.

The CHAIRMAN. In what line of provisions is there the most active speculation?

Mr. WHITE. In lard, pork, and side meats; more, I think, in lard and side meats, because pork is gradually becoming an article of lessened consumption.

Mr. LEVER. Is it a fact that your quotations of futures largely control in making the price for the hogs, on the one hand, and on the other

hand, the price of the pork? In other words, I would like you to discuss the relationship of a spot hog with futures.

Mr. WHITE. Yes. Well, the man who is packing hogs will look at the price of the futures as well as the price he is getting for certain parts of the animal that do not enter into speculation in a broad way; he figures the cost of the hogs based upon a future market.

Mr. LEVER. So the price of a hog is based upon the future quotations largely?

Mr. WHITE. To a considerable extent.

Mr. LEVER. And the price, also, of the pork and the lard would be based in the same way, largely?

Mr. WHITE. Largely, yes. Where you want certain meats they say the price will be so much above or so much below May, or July, or September deliveries.

Mr. LEVER. So that if speculators should get together and put a fictitious price on or off of hogs, or lard, that speculation would then control the price?

Mr. WHITE. If speculators should buy futures to such an extent as to put the price up that would increase the manufacture of that particular article to meet that speculative demand.

Mr. HAUGEN. And force the price up?

Mr. WHITE. Are you now speaking of a general demand or, as the gentleman did awhile ago, where he gets to the end of the month, and where some one was cornering the market?

Mr. LEVER. Is it possible to corner the market? I was not here when that question was asked.

Mr. WHITE. The amount of business done, where there is any corner, is very small compared to the total amount of business on the board. It attracts more attention, it is reported in the papers, and there are always exaggerated reports of the amount of the trade and of the amount of money made.

Mr. LEVER. A corner, I would take it, would be the result of the effect of artificial conditions, isn't that a fact?

Mr. WHITE. Sometimes it may come about by natural conditions, but generally through artificial conditions.

Mr. LEVER. Those conditions are usually brought about by manipulations of the future contracts?

Mr. WHITE. It is through some one having more stuff bought than there is. And I want to say right here that those corners are wrong.

Mr. LEVER. They are wrong?

Mr. WHITE. They are; in my judgment they are a detriment to the best interests of the exchange and disturbing to the business. But, sir, the amount of business in that way, as I said before, is exceedingly small. I regret it; it is one of the barnacles on our ship.

Mr. LEVER. Is there any way under your rules by which a corner could be prevented?

Mr. WHITE. We lately offered an amendment to the rules for the purpose of controlling corners and also providing a penalty for any one who should default in the fulfillment of his contracts, for the purpose of eliminating that feature; it was voted down by a very small majority, largely because there were some who thought that it possibly impaired the sancity of contracts, and if a man undertook to sell an article and had made no provision for the fulfillment of his con-

tract that he had only himself to blame if he suffered under it. But I think the sentiment now is getting around to where something in that line will be adopted in the pretty early future.

Mr. JOHN W. SNYDER. I saw in yesterday's paper that hogs had sold at \$9.80, the highest price obtained in forty years. Does the farmer get the benefit of that advance or does the packer, who has sold at a lower price, get the benefit of that price?

Mr. WHITE. The farmer is getting the full benefit of it.

Mr. SNYDER. The packer who sold at a lower price is losing money?

Mr. WHITE. Yes, sir.

Mr. LEVER. I see in to-day's New York Commercial that pork has not been so high for forty years. The headlines are "Speculators boosting pork. They hold to their stock in Chicago and prices keep climbing." Now, I take that from the headlines and from the reading of the story I take it that the farmer has parted with his hogs and that the speculators have them, is that the fact?

Mr. WHITE. No, sir. Those hogs are coming to the market every day of the month and every day of the year, every business day, and there are times of the year, one season, when the farmer is selling more, and another season when hogs are less plentiful. But the statement there that the speculators holding on to pork is causing the advance is not so, that has nothing whatever to do with it in this instance. I can tell you in a few words the reason for the present high price of pork. During the panic there was a depression in a great many articles and the farmer was wanting money; the country banker was wanting money, and he was calling upon the farmer to give him all he could of anything, and the hogs came to market, and they were depressed down to where it was unprofitable to raise them, compared with the price of corn. I should say that corn was relatively from 15 to 20 cents a bushel above the price that the farmer was receiving for his hogs. The next year the corn crop was not a very good one and the price of corn went up to a very high figure; there was a loss in feeding hogs, and so the farmers sold their stock to a low point; then last year the receipts fell very much; we are feeling the effects of that condition; we are still feeling it and in a larger degree. It is entirely due—it is almost a hog famine, due to the very small supply in the hands of the farmers.

Mr. LEVER. So you do not agree to this proposition, set forth in this New York Commercial, under a Chicago date line, that—

> The situation in Chicago now depends on the action of the speculators; they and the packers are engaged in a war of prices, speculators holding out for a rise and the packers trying to make purchases at present prices.

Mr. WHITE. I do not believe in that in the least.

Mr. LEVER. You do not believe that at all?

Mr. WHITE. No.

Mr. LEVER. You said a moment ago that the farmer was getting the full benefit of the rise in the price of hogs. The converse of that proposition would be true, that the consumer, the eater of pork, is getting his full share of the burden of high hogs, wouldn't it?

Mr. WHITE. Yes.

Mr. LEVER. So that if the speculator is helping the producer of the hogs, on the one hand, he is hurting the consumer of the hogs on the other?

Mr. WHITE. Well, sir, with regard to that, I would say that the present price of hogs and hog products is due entirely to the great scarcity of the hogs.

Mr. HAUGEN. Has there been any more fluctuation in the hog market than in the cattle market?

Mr. WHITE. There has been lately; they have gone up more.

Mr. HAUGEN. To what extent?

Mr. WHITE. I couldn't tell you without reference.

Mr. SNYDER. Isn't it a fact that live hogs are stored in Chicago the same as corn?

Mr. WHITE. No, sir.

Mr. SNYDER. Waiting for a market?

Mr. WHITE. No, sir. When a farmer has them to sell he sells them to a shipper, or they are shipped into Chicago on his account to a commission man and they are marketed in the yard; the price is fixed that day, and the next day the hogs are killed, so that the farmer gets the full benefit of the daily prices on hogs, and at the present time hogs are scarce and they are wanted, and on this occasion there is no money in the packing of them, whether you sell the product to a consumer or to a speculator; they are standing relatively a little higher than the product on account of the competition.

Mr. McDERMOTT. On Thursday the Chicago Journal stated "The jump in price was ascribed to the activity of eastern shippers." You know who they are?

Mr. WHITE. Yes, sir.

Mr. McDERMOTT. "And it was estimated that between eight and ten thousand hogs would be sold during the day." That is one of the reasons why the price is high; the eastern buyers are coming into the Chicago stock yards and buying heavily for their eastern consumers?

Mr. WHITE. Yes, sir. Two years ago, at the time when I told you hogs were relatively much lower than corn, the East was doing the same as the West—marketing their hogs and getting out of stock to a great extent. Now, this winter they have had a moderate supply from eastern points, but they have reached the point where that supply is giving out, and they have been sending into Chicago and other western points for hogs.

Mr. McDERMOTT. There are hundreds of fellows in the Union Stock Yards buying for eastern firms, aren't there?

Mr. WHITE. Yes, sir.

Mr. McDERMOTT. What we call "scalpers" in the yards and commission men?

Mr. WHITE. Yes, sir.

Mr. LEVER. Your testimony is, then, that ordinarily the law of supply and demand governs the price of hogs and the price of pork?

Mr. WHITE. The law of supply and demand does govern it.

Mr. LEVER. But there are occasions, under the rules of your exchange, where a corner might take place and artificial conditions arise which would give artificial prices?

Mr. WHITE. That would happen only toward the end of the month, say the month that you are living in, in which there is very little trading.

Mr. LEVER. But it could happen on occasions?

Mr. HAUGEN. Is it not possible to get a corner on any article if you have the money and means of bringing it about? Couldn't one effect a corner in sugar, nails, barbed wire, or anything else if you have the money and means to bring about such a corner?

Mr. WHITE. Yes.

Mr. LEVER. Did you ever hear of a corner in nails?

Mr. HAUGEN. Isn't it true that Mr. Leiter made his first million dollars through a corner in nails?

Mr. WHITE. I am not aware of it.

Mr. HAUGEN. I have seen it stated in the paper that Mr. Leiter made his first million dollars through a corner in nails.

The CHAIRMAN. As a general proposition the difference between running an article into a corner in which there is no future market and one in which there is a future market is that the former would require a great deal more capital than the latter for the reason that you would have to pay the full value of the article, instead of simply depositing enough to carry it forward?

Mr. WHITE. Yes, sir; because if a man is running a corner he has to take all the stock that there is that any one can give him, and the number of successful corners I think you could count on the fingers of one hand; the men who attempt them, in nearly every case, go broke. Leiter lost $10,000,000 through trying to corner wheat.

The CHAIRMAN. He was a bright and shining example of the truth of your statement.

Mr. WHITE. Yes, sir. I have known of five or six attempted corners. There was one by McGeogh in 1883, when he had all the lard of the packers; he got it in the month of May. What happened? They were making all the lard they could, and naturally the little streams of lard from St. Louis going South, going East from Chicago, going East from Omaha and Kansas City, going in various directions, became diverted to the corner, and he soon realized that it is very easy to make and very heavy to carry.

The CHAIRMAN. You stated, in reply to a question by Mr. Lever, that you regarded the manipulation of the market with a view to running a corner as an evil which it would be well to eliminate?

Mr. WHITE. That is my own personal view and the view of a large number of our members. I would not attempt to justify a corner.

The CHAIRMAN. Would you also regard it as an evil on the part of members of your exchange to seek to induce outsiders to speculate on the board?

Mr. WHITE. I think you would have to discriminate between what I would call the legitimate and illegitimate in speculation. I think that all economists for years have recognized the speculator as necessary in the matter of commercial economy. I think that ever since Joseph bought up all the wheat in Egypt, when there was a great surplus, and carried it until there were years of scarcity, thereby preventing a great deal of distress, not only in grain but in other things, men have tried to forecast the future, men whose minds are trained in that particular line, men who make a specialty of it, and the speculator buys that stuff and bears the burden of carrying it from the time when there is an oversupply and carries it along until the time when it is required.

The CHAIRMAN. It does not require any particular inducement to bring the speculator into the market; he puts himself into the

market because that is his bent and that is his business; but I would like your attention to a specific case. I have before me a market letter of a member of the Board of Trade of Chicago, from which I read these paragraphs:

It is the duty of the wheat investor to anticipate the coming upturn in May wheat. The high points for May, 1910, wheat lie ahead. I pay telegraph tolls on all orders to buy or sell full lots of wheat. I want your account. Smallest amount of wheat handled 1,000 bushels. Your margin check should equal 4 cents per bushel or $200 on 5,000 bushels.

Of course, no man can read that without knowing that it is a bald and palpable bid for the orders of mere gamblers, of men who simply want to take a flyer on the board.

Mr. WHITE. A bid for speculative business.

The CHAIRMAN. Now, do you believe that that is essential to the business of your exchange.

Mr. WHITE. A market letter like that?

The CHAIRMAN. Well, such a bid for speculative business as that?

Mr. WHITE. No, sir; not essential.

The CHAIRMAN. Do you think it is in the interest of the exchange that members should be permitted by your rules to embody such suggestions in their letters?

Mr. WHITE. I do not know that it is a matter over which we would have any control.

The CHAIRMAN. But you are a self-governing body; you could correct it if you thought best?

Mr. WHITE. There are market letters and market letters; some market letters are eminently good.

The CHAIRMAN. Undoubtedly so. I am not criticising market letters generically. They are necessary.

Mr. WHITE. Yet the good letter is an endeavor to get business.

The CHAIRMAN. But I am calling your attention to this particular kind of a letter. Now, Mr. Fitch the other morning had no hesitation in saying that he did not believe that that was good business, that he regarded that as one of the barnacles on the board of trade, and I simply wanted your opinion upon it.

Mr. WHITE. If I was in the commission business I would not send out such a letter; I would rather not see any.

The CHAIRMAN. You know I am not asking these questions in a controversial way, but simply to get your judgment upon them. You know, of course, the only thing that ever gives the Chicago Board of Trade, or any other board of trade, any trouble or brings criticism upon them or suggests legislation such as we are considering here now is, in common parlance, the gambling on the boards, the practice under which lambs out in the country are induced to come into the corral and be sheared. Now, as the president of that organization, proud of its standing, anxious to maintain its good name and to promote its business, have you ever considered the question as to whether some rules might not be devised that would free it from any just criticism along the lines I have suggested?

Mr. WHITE. I do not think the question of market letters has ever been discussed. Has it, Mr. Merrill?

Mr. MERRILL. Not formally, but that has been a very live question informally, along the line of the questions asked by the chairman. The very general feeling on our board is that we have got to have censorship. I do not know whose letter that is and prefer that you

shall not tell me; I do not want to have my remarks connected with the name; I think I know, sir, and that is the reason I ask you not to tell me. But I agree with you heartily, sir. While this is more or less of a new condition for the exchanges, I think our president will agree with me that it is time to exercise some censorship over the communications going out from our members in order to maintain our integrity.

The CHAIRMAN. I am glad to hear you express that opinion.

Mr. HAUGEN. Is it not customary for a member of the board of trade to discourage speculators?

Mr. MERRILL. Not for the houses which exist almost wholly for speculative purposes; we have cash grain houses, who do little speculating, and we have houses who do little cash-grain business and a large amount of business of a speculative nature; those people, of course, are imparting all the information they can bearing upon the questions connected with their business. As I understand it, the chairman does not refer to them, but to those who ought not to speculate or who are not in a position financially, or otherwise, to speculate.

Mr. HAUGEN. Do you often have customers in the country asking your advice as to hedging?

Mr. MERRILL. Oh yes, sir.

Mr. HAUGEN. As a general thing, is it not customary for the commission men or members of the board of trade to advise against pure speculation?

Mr. MERRILL. Yes, sir.

Mr. HAUGEN. That you would give them advice as to future delivery in the case of hedging, but outside of that the members of the board advise against speculation?

Mr. MERRILL. Our rule in my firm is to advise against speculation when it is simply and purely speculation, but always to invite hedging propositions, in order to eliminate speculation.

Mr. WHITE. I trust you will excuse me for referring to Mr. Merrill on the point of whether or not there has been any consideration given this matter of market letters, because I have no information that could be considered official.

The CHAIRMAN. I asked the question of the present witness, because being the president of the board of trade, the committee would like to have his opinion. Are there any further questions to be asked of Mr. White?

Mr. BURLESON. I would like to ask him one or two questions. Mr. White, if you sold a thousand tierces of lard for export——

Mr. WHITE. Yes, sir.

Mr. BURLESON. And you wanted to hedge it upon your board of trade, under that contract how many grades of lard would be deliverable to you if the tender was actually made to you?

Mr. WHITE. Only one, a tender of only one grade. Prime western steamed lard, of choice quality.

Mr. BURLESON. You do not have a number of grades deliverable of different values, and the seller has the right to tender either one of those grades or all of them?

Mr. WHITE. No, sir; we have been very careful to keep up the grade.

Mr. BURLESON. Now, is there any relation between the price of a future contract for the delivery of lard and the market price of lard, any relation between them?

Mr. WHITE. Yes, sir; they both move together.

Mr. BURLESON. They maintain a parity. The parity is maintained between the two; isn't that true? You say they move together; that is what I mean by parity.

Mr. WHITE. They move together, but subject to various influences. If the stock is heavy, the full carrying charge will exist. Say this is February, the cash price will be, with a heavy stock, as much lower than the May as it would cost to carry each article in the store until May.

Mr. BURLESON. I understand that.

Mr. WHITE. So, with that exception, they are the same.

Mr. BURLESON. But with that exception. But if there was a violent fluctuation of this margin, if it was frequently changing, it would cease to afford you protection as a hedge, wouldn't it?

Mr. WHITE. If the cash and——

Mr. BURLESON. If this margin between the price of the future contract and the market price of the product was constantly changing in a violent way, it would cease to be a protection to you?

Mr. WHITE. Well, it doesn't violently change in that way, as a matter of fact.

Mr. BURLESON. That is a matter of reasoning and you can reason it out.

Mr. BROOKS. Wouldn't it destroy the broad market that you spoke of if this speculation that you have been discussing is eliminated?

Mr. WHITE. Yes, sir; speculation, as I said before, enters into the commercial economy, and the real speculator helps to carry the stuff from the time of plenty to the time when it is wanted.

Mr. BROOKS. If you discouraged it you could have that use of the products on the market?

Mr. WHITE. Yes, sir.

Mr. HAUGEN. Is there any dealing for the future delivery of lard?

Mr. WHITE. Yes, sir.

Mr. HAUGEN. To what extent do the consumers of lard or provisions avail themselves of the future market?

Mr. WHITE. You mean the buyers?

Mr. HAUGEN. I mean the hotel keepers and consumers in general, the smaller consumers of provisions?

Mr. WHITE. The retail buyers?

Mr. HAUGEN. Well, hotel keepers, and so forth.

Mr. WHITE. I never heard of it; I do not know why a hotel man would want to do that.

Mr. HAUGEN. They do to some extent.

Mr. WHITE. I do not know why a hotel man would buy future delivery; if he should do that, I should think he would have gone out of his province altogether. I know if I were in the commission business and received such an order I would not execute it.

Mr. HAUGEN. I was in Chicago in December, and in talking to a hotel man about the high prices, he told me he was not concerned about the high prices, as he had bought his eggs and lard in May for December delivery; he was paying then 26 cents for eggs and the market price was 35.

Mr. WHITE. He had probably made a contract in the country to be supplied with so many eggs in a week for so many months.

Mr. HAUGEN. I understood him to have bought on the board of trade for future delivery.

Mr. WHITE. Eggs are not sold on future delivery.

Mr. HAUGEN. I said his lard.

Mr. WHITE. Eggs are not traded in on the board of trade.

Mr. HAUGEN. But lard is.

Mr. MERRILL. Mr. Ward Ames, sr., of the Duluth Board of Trade, desires to say but a few words and file a brief regarding the matter before the committee.

TESTIMONY OF MR. WARD AMES, SR., OF THE DULUTH BOARD OF TRADE.

(The witness was sworn by the chairman.)

Mr. AMES. I have a brief which I desire to file, but in behalf of the Duluth Board of Trade I want to respectfully and earnestly protest against the passage of the bill, and as an exporter I want to state that it will seriously interfere with our export business, if not, I was going to say, ruin it. I have fully stated the facts in this brief.

Mr. MCLAUGHLIN. Is your board of trade unanimous in regard to the resolution you are presenting?

Mr. AMES. Yes, sir; I have a telegram from the president asking me to say for the board that any steps that would be taken to eliminate from the business the bucket shops would meet with our hearty approval, but that the selling and buying for future delivery were both the life of the business.

The CHAIRMAN. We understand that thoroughly.

Mr. AMES. One other item of interest would be the position that we occupy as exporters, and that is covered in that brief.

Mr. MERRILL. When I introduced Mr. Ames I did not do him the honor of saying that his firm is one of the largest, if not the largest, exporter of wheat in the Northwest.

The CHAIRMAN. We are very glad to have heard from him.

Mr. AMES. I appear before you as representing the Duluth Board of Trade and also appear in my own behalf as an exporter. Thirty years ago trading for future delivery was practically unknown in our market. At that time the volume of grain business in our country was small as compared with the present. At that time the maximum load on our Great Lakes was 18,000 bushels. To-day our large steamers carry 400,000 bushels, and this increase in tonnage fairly illustrates the increase in the grain business. It may seem strange to some of you gentlemen not familiar with the grain business, but it is nevertheless the fact that our present crops from the farm can not be handled without the present machinery of trade unfettered. It has taken these long years to develop our present system, and unless you can give us some equally effective way we must be allowed to trade in grain for future delivery or our commerce, so far as the grain business is concerned, will be ruined. The present system gives the farmer the whole twelve months of the year, or any one month, in which to market his crops. The exporter is able to find a market for a large portion of the grain before it is raised, so that when the new crop begins to arrive at the terminals it begins to move out and avoid congestion and slaughter of prices for the farmer.

Trading in grain for future delivery is the salvation of the farmer. As an exporter we are now having bids for grains to go out after the opening of navigation, and unless we have the right to sell for future delivery the export business is gone. We put out cable offers at night, subject to acceptance at a certain hour the next morning. If our offers are accepted we have sold something we do not own but will buy as soon as we receive our cable. We could not make an affidavit and furnish the same to the telegraph company that we owned the wheat when we filed the cablegram. When our receipts are free and we are buying faster than we sell abroad we hedge our purchase in some other market, say, Chicago. Now when we are putting out this hedge we can not make an affidavit that we intend to deliver that wheat in Chicago, for we may take off the hedge the next day. Some few years ago the Government introduced a new species of wheat into our northwestern territory through the Agricultural Department. They called it Durum wheat. Our millers do not look favorably upon this wheat and do not use it generally, preferring the old varieties, Blue Stem and Scotch Fife. This makes the Durum wheat almost altogether an export proposition. I maintain that we are doing a strictly legitimate business, benefiting the farmer, because we furnish him with the markets of the world for his product, and benefiting this country at large because we are bringing outside money into this country instead of swapping dollars among ourselves. I am not familiar with the cotton business but do know that the volume of grain business in this country amounts to several billions of dollars, and I urge you to think long and seriously before placing on our statute books any law which jeopardizes this volume of trade. I feel that this bill is inimical to the interest of our grain exchange and will seriously curtail our export business. For these reasons I beg of you to go slow in placing stumbling blocks in the way of its safe and sane handling.

(At 1 o'clock p. m. the committee adjourned to meet Tuesday, February 22, 1910, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Tuesday, February 22, 1910.

The committee met at 10.30 o'clock a. m., Hon. Charles F. Scott in the chair.

The CHAIRMAN. The committee desires to proceed this morning with the hearings in relation to the grain exchanges, and if Mr. Merrill will present his next witness we will be glad to listen to him.

Mr. MERRILL. Mr. Chairman, our first witnesses this morning are from the Baltimore exchange; and the first one will be Mr. Snyder. director of that exchange.

TESTIMONY OF MR. JOHN W. SNYDER, OF BALTIMORE, MD.

(Mr. Snyder was duly sworn by the chairman.)

Mr. SNYDER. Mr. Chairman, I am suffering from a severe cold and will necessarily be very brief. I had intended——

The CHAIRMAN. Pardon me, I do not think the committee heard your statement to the reporter as to the organization that you represent.

Mr. SNYDER. I am a member of the board of directors of the Baltimore Chamber of Commerce, and president of the Hammond & Snyder Company, grain commission merchants and exporters. I had intended to make a little talk here, and I am very sure that you gentlemen will be much pleased not to have it, as I am suffering from a very severe cold. I want to iterate and reiterate what I have heard of the testimony before you by gentlemen from the different grain exchanges of the country. To my mind the evidence produced has been very strong and to the point. There has been nothing hidden simply because there has been nothing to hide. Our exchange, as an exchange, is against the bill that is now before you for the simple reason that if it were passed it would materially interfere with the proper conduct of our business. I brought with me on Saturday the 54th annual report of the Baltimore Chamber of Commerce, which I gave to Mr. Merrill.

Mr. MERRILL. It is here, sir.

Mr. SNYDER. And which we will file as part of our representations. As you will see, it is printed, giving statistics. It gives, in the start, the reason for the formation of what was then known as the Corn and Flour Exchange of Baltimore. In 1891 the title was changed to that of the Chamber of Commerce. There is but one of the incorporators now living. I have dog-eared several pages here for the ready reference of the chairman or any members of the committee, or for Mr. Merrill, referring to the by-laws, forms of contracts, the act of the legislature, and the act of incorporation. We have nothing to hide, but everything to expose in the conduct of our business, and that will all be found in the 54th annual report, which is our last report. I thought it was unnecessary to burden you with others.

I heard Mr. Fitch say on Friday with reference to the dealing in grain, that there is buying and selling of grain every hour of the day and every minute of the hour. That is correct. It is so on our exchange, and but for the advantages that we have on hedging overnight sales made at times to the other side, and made at times on this side, we could not conduct the business as successfully as it has been conducted. In fact, there are those of us who, if we have to do without this privilege of hedging, will have to go out of business; and we are now too old to get into other lines. It is therefore hoped that in going over this matter you gentlemen will readily notice the difference between hedging and rank speculation. The grain men as a class are not speculators. They are business men, and if I may be permitted to say so, business men of the highest type.

The CHAIRMAN. What would you define as the difference between hedging and rank speculation?

Mr. SNYDER. The rank speculator is a man who has no interest whatever in producing grain or in handling grain. A rank speculator from my standpoint is a man with more money than brains.

The CHAIRMAN. To what extent does the rank speculator operate in Baltimore?

Mr. SNYDER. To a very limited extent.

The CHAIRMAN. Are there any rules that restrict his operations in any way?

Mr. SNYDER. No, sir. Anyone can deal through an accredited member of the Baltimore Chamber of Commerce. Any outsider can deal through a member of the Baltimore Chamber of Commerce; but

the business of the Baltimore Chamber of Commerce is more of a cash business than it is of a speculative nature.

The CHAIRMAN. You have a speculative market, however, in Baltimore, have you not?

Mr. SNYDER. Our members at times make their hedging at home instead of away from home. When the business is of larger volume they have to go outside of home to do it.

The CHAIRMAN. How about the man you have designated as a rank speculator? Does he find scope enough in the Baltimore market, or does he have to go to some other vicinity?

Mr. SNYDER. For quick trading he would have to go to other markets where there is more trading in options than there is in our market. We are not angels when it comes to trading. We are not angels when it comes to hedging trades that we have already made, but we are not what might be classed "speculators." Our speculation, if you might term it such, is done from the hedging standpoint. For instance, I offer to-night on the close of the market to the continent of Europe, or to other parts of Europe, to the British Isles, the United Kingdom, a certain quantity or quantities of corn or wheat or rye, as the case may be. I have that grain in sight, if not on hand. I base my offers to the other side on the close of the market of the day. I must take into consideration that that wheat, corn, or rye, or oats, as the case may be, can not be shipped to-morrow; and it may not be shipped next week, and may not be shipped next month. It may be shipped three months from now. I offer so many thousands of bushels of grain, in such and such shape. Ocean shipments must be taken into consideration; shipments in Baltimore must be taken into consideration; and if the stock of grain at Baltimore is too small, we know where to lay our hands on it over night, in the west; and we frequently wire to our friends in the west "We want cable refusal on a certain number of bushels, 100,000 or 150,000 bushels of corn, wheat, or rye, for such a shipment to meet such an order," and they give us that overnight option at a price above the market. We embody that in a cablegram and send it to the other side. Sometimes we connect; sometimes we do not connect. It may take a week or two to make connection back and forth, day after day, by cabling. On the other hand——

The CHAIRMAN. That all relates to what are undoubtedly bona fide transactions, the propriety and necessity of which nobody questions. I think the point upon which this committee would like your opinion is whether it would be possible either by legislation through Congress or by a rule on the part of your exchange, to retain the legitimate and necessary functions of your exchange, such as you have outlined, and eliminate what you have designated as the rank speculation.

Mr. SNYDER. In wheat?

The CHAIRMAN. Wheat, corn, or any other product.

Mr. SNYDER. I think it would be a blessing to us if the rank speculation could be eliminated.

The CHAIRMAN. Have you any suggestion to make as to how it could be done?

Mr. SNYDER. I have not. I think that would have to be left, Mr. Chairman, principally to the boards of directors of the various exchanges.

The CHAIRMAN. You think that rules could be devised by those boards which would eliminate it?

Mr. SNYDER. I think prohibiting corners to a very great extent would bring that about.

Mr. HAWLEY. Have you ever tried to devise such rules?

Mr. SNYDER. I can not say that our chamber has. The Chicago Board of Trade, I understand, are now working along those lines.

The CHAIRMAN. Has your board of trade ever frowned upon the practice on the part of your members of inducing speculation through attractive and suggestive wording of their market letters?

Mr. SNYDER. Not as a chamber of commerce. Different firms get out different market letters. Such a letter as you read on Saturday, sir, I am sure, if it emanated from Baltimore, would be the means of causing censure. I am perfectly satisfied it would.

The CHAIRMAN. You think the members of your chamber of commerce do not use such methods?

Mr. SNYDER. No, sir; I have never known of such a letter coming out; and I think that our board of directors would immediately take cognizance of it and would reprimand the member or censure him.

Mr. LAMB. May I ask a question?

Mr. SNYDER. Certainly.

Mr. LAMB. Have you read these bills that we have before this committee?

Mr. SNYDER. I have not, sir. I have read only a synopsis of them in the newspapers.

Mr. LAMB. Then you can not say whether or not the enactment into law of these measures would prevent what you call hedging?

Mr. SNYDER. No, sir; but from the articles that I have read on the subject I think they would interfere with hedging. I would be very much pleased to have a copy.

Mr. LAMB. Certainly. I thought you had read it.

Mr. SNYDER. No, sir; not fully.

The CHAIRMAN. Perhaps Mr. Snyder would rather finish his statement before being questioned.

Mr. SNYDER. I had finished. I am subject to your questions.

Mr. LEVER. Hedging is impossible unless you can keep the parity between spots and future contracts. Is that true?

Mr. SNYDER. I do not quite understand that question.

Mr. LEVER. I mean to say, unless there is maintained a uniformity of parity between the spot transaction, the spot price, and the price of future contract, your hedging operations are made dangerous and sometimes can not be had at all. Is that the fact?

Mr. SNYDER. Oh, no, sir. We can hedge at all times; but whether we can hedge at the price we want to hedge at is a question.

Mr. LEVER. What I wanted to bring out was this: Do you regard the parity between the spots and futures as necessary to the best interests of your hedging operations?

Mr. SNYDER. I will give you an instance right there and right now. I made this calculation yesterday or day before yesterday. I took——

Mr. MERRILL. To answer the question, is it not true that there are fluctuations in the hedging basis as well as in the market prices.

Mr. SNYDER. Naturally; naturally.

Mr. MERRILL. It is never a fixed parity, Mr. Congressman. It is always fluctuating, like other commodities, or like the value of the goods in any line of business.

Mr. LEVER. Where this fluctuation is found, does it not interfere with your hedging transactions and make it dangerous for the hedger?

Mr. MERRILL. No, sir; I do not think it does. I shall be very happy to go into that in detail later.

Mr. SNYDER. I would like to answer the gentleman's question in another way. Our market for spot corn closed on Saturday at 68½ cents. Our market for May delivery corn closed at 71¼ cents. I figure the carrying charge, including storage, insurance, and interest from last Saturday to the first of May, if I want to carry the actual grain at Baltimore instead of having it run in from the west. If I wanted to carry the actual grain in Baltimore I would have bought spot corn at 68½ cents, and it would cost three and nineteen one-hundredths of a cent per bushel to carry it to the 1st day of May. On the 1st day of May my certificate must have fully three days storage to be deliverable; otherwise there is a penalty of an eighth of a cent a bushel for the next five days. You can readily see how it would pay a firm doing a large business having the privilege of buying the actual grain, we will say, in the west for future delivery, or, in case of failure to buy the actual grain to-day, to buy the future at a difference, the carrying charge difference; because, Mr. Chairman and gentlemen, he does not have to pay for that grain until the bill of lading is delivered to him with the contract.

Mr. LEVER. But suppose the May option was very much overvalued by some system of manipulation on the board or somewhere on the exchanges of the country; would it not make it dangerous for the hedgers to buy on that?

Mr. SNYDER. No, sir; that is exactly why we want to do hedging. One of the things that we want to overcome is a less supply. When the supply is less the market is higher, nine times in ten; and when the supply is greater the market is lower. You have not a dry-goods man in the United States who does not speculate. You have not a grocer who does not speculate. You have not any department of the Government of the United States that does not speculate. You have not a grower, a farmer, who does not speculate. If he holds his stuff instead of putting it on the market when it is ready for the market he speculates, at one hundred cents on the dollar. If he puts his grain on the market, and wants to speculate in a safer way, he can get ninety-five cents on the dollar back, and speculate with five cents on the dollar. The farmer, the producer, is the greatest speculator this country has ever produced.

The CHAIRMAN. There are no bills pending before the committee the purpose of which is to attempt to put a stop to such speculation as you have suggested. That is an incident of the business which everybody recognizes. What we are trying to do is to find some way, if there is a possible way, to allow these legitimate functions to proceed, while putting an end to the evils that everybody recognizes exist in connection with these exchanges.

Mr. SNYDER. Then, Mr. Chairman and gentlemen, in endeavoring to do away with what I term rank speculation I would suggest most respectfully that you be very careful not to interfere with the legitimate ends of the business. This business has grown from year to year, and in years has become an immense business. At present the United States is handicapped in the exportation of its grain by the larger production in Argentina and in Russia. They are offering grain to the continent of Europe and to the British Isles for less money than the price at which we can put it over there in any volume.

The CHAIRMAN. In what products is there a future market in your chamber of commerce?

Mr. SNYDER. Wheat and corn, principally.

The CHAIRMAN. What grades of wheat are deliverable on your contract?

Mr. SNYDER. Our contracts generally are No. 2 red. We can deliver No. 1 northern wheat from the Northwest, or can deliver No. 1 hard Kansas wheat on No. 2 red contracts when not otherwise stipulated. But when a contract is made for No. 2 red—we will say No. 2 red, May—No. 2 red must in every case be delivered. When the contract is made for No. 1 northern, No. 1 northern must in every case be delivered. When it is made for No. 1 Kansas hard, No. 1 Kansas hard must in every case be delivered. I will read you here, if you will permit me——

Mr. HAWLEY. Before you do that, let me ask you a question. In reply to a question put to you by Mr. Lever I understood you to say that hedging depressed prices.

Mr. SNYDER. No, sir; I did not. I said hedging was a protection to the merchant, to the buyer, and to the seller. You misunderstood me, sir.

Mr. LEVER. Is it any protection to the grower of the wheat—the producer of the wheat?

Mr. SNYDER. There is the protection of the price he gets for it, sir. The purchaser of wheat can go into any market that deals in it and buy or sell, if he wants to.

Mr. LEVER. But he would have to buy through a member of the exchange?

Mr. SNYDER. He would have to buy through a member of the exchange and would have to pay a legitimate commission for doing so.

Mr. LEVER. That leads me to ask you this question before I get away from it. When an outsider endeavors to make a contract through a member of your exchange or board, do you make any inquiry as to whether or not he is a rank speculator, as you designate him, or whether he is a legitimate dealer?

Mr. SNYDER. I have no means of doing that. If I get an order from you to buy or sell 5,000 or 10,000 bushels of May wheat, I would not think for a moment of executing that order without knowing you, unless I had your margin in hand. A certain amount of margin is required.

Mr. LEVER. If I sent you a margin of $500, and you did not know anything about me, and I gave you an order, would you execute it without making any inquiry?

Mr. SNYDER. At the market; certainly, sir; because you would want me to buy it. I might buy it from the chairman of the committee, a member of my exchange, and within half an hour of that transaction there might be a call for margin. I would charge you the usual commission for buying and selling. I will say further to you, and for the information of the committee, that if your margin was being exhausted I would notify you that your margin was being exhausted and that I would require more margin, for the simple reason that the gentleman from whom I bought the wheat had already called on me for margin, or would call, and I would have to have it in hand or close your trade.

The CHAIRMAN. In your judgment what would happen to the exchanges if the margin system were eliminated, and if you made specific contracts as to payment and the time of payment?

Mr. SNYDER. Mr. Chairman, if the system of margins on the different exchanges was eliminated, we would go back to the time of Joseph when he cornered the corn of Egypt; and nobody has ever told us how it was paid for. It would drive the people out of business.

The CHAIRMAN. Would it not take more money to corner a product if you had to pay the full value of it than it would if you had to pay only a fraction of that value?

Mr. SNYDER. If I had $100,000 at my command to-day I could buy only $100,000 worth of grain. Mr. Reynolds testified here, I understand, last Saturday, that his concern bought before the corn was ripe 600,000 bushels of corn, and that they paid the farmer an installment on that corn. He referred to the fact of having sold to me and to others. We make contracts with the western dealer who makes a contract with the western farmer, and I am sorry I did not bring over a copy of our confirmation. I intended to bring it, and I will be very glad to mail it to you if you would like it—the confirmation blank. That blank shows exactly what the transaction is, and that corn is expected to be delivered. I would be very glad, if the committee cared to have it, to send it.

The CHAIRMAN. It is the corn that is not expected to be delivered that we are interested in.

Mr. SNYDER. In all cases delivery is contemplated, even in speculation.

Mr. LEVER. But is delivery expected?

Mr. SNYDER. It is contemplated. Mr. Peck testified that when he bought 1,000 bushels of wheat overnight and hedged for Chicago, he did not intend to send it to Chicago, but to Minneapolis or the southern mills; and I corrected him at the time, if you remember, by saying, "You hedged your original profit." He hedged his original profit.

The CHAIRMAN. In order that the record may be measurably complete, I would like to call your attention to the questions I asked in regard to the cornering proposition. I understood you to say that if no margin deals were permitted it would be easier to corner a product than it is under the present system. Will you explain how it happens that it would be easier to corner wheat, for instance, if you had to pay the full price for every bushel you bought than it is now when you can get possession of it on the payment of a cash outlay of five cents a bushel?

Mr. SNYDER. Mr. Chairman, if margins were not required on grain deals, any rapscallion in the country could give orders to buy more than the country produces.

The CHAIRMAN. But he would have to accompany those orders by the full value of the grain.

Mr. SNYDER. No. You or I would put up our original margin, but if any rapscallion could come in and buy and buy and keep on buying, and he did not have to put up a margin, you would not know whether you were afoot or on horseback.

The CHAIRMAN. You quite misunderstood my question, evidently. When I inquired what would happen if the margin system were done away with, I did not mean that there should be substituted for that system a practice of buying for nothing. I meant that there should

be substituted the practice of paying the full cash value of the product you were buying at the time you bought it.

Mr. SNYDER. If you could do that there would be no corners.

The CHAIRMAN. I thought you would want to revise your answer to that question.

Mr. SNYDER. A man could not control money enough to do it.

The CHAIRMAN. Of course not.

Mr. SNYDER. Obliterating the rank speculator that I speak of, and retaining the hedging privilege would, in my judgment, help the grain business; it would help the producer and it would help everybody.

The CHAIRMAN. Do you not think it would be an excellent thing for the exchanges to try and put their houses in order, and to eliminate the element that they all admit is an evil and which does more than anything else to bring reproach upon their system and to endanger the whole system?

Mr. SNYDER. Yes; provided you did not go so far in endeavoring to eliminate that rank speculator as to endanger other lines of the same trade.

The CHAIRMAN. Do you not think it reasonable that gentlemen engaged in legitimate business upon these exchanges should help Congress and their legislative bodies to find the real line of demarkation rather than to be standing up and opposing any kind of legislation?

Mr. SNYDER. Yes, sir. I think that the only reason, or one of the greatest reasons, why we are opposing to-day this antioption bill, is because it started out to cut too deep, to cut into our privilege of hedging. From what I know of it, it has started out to cut into our privileges, and to interfere with our doing business in a legitimate way, unless we do as the farmer does. And, Mr. Chairman and gentlemen, I tell you the present American farmer needs no apology, and needs nobody to apologize for him to-day. He used to. I remember as a schoolboy—and some of you may remember the same things—when I had to walk over muddy roads with my little coppertoed boots, and take my lunch to school with me, as a country schoolboy; and there were others. To-day the average farmer's children are sent over to school in an automobile, and some of them are carried home to lunch and taken back by automobile. We must not think that the farmer of to-day needs the same treatment at the hands of Congress that he needed fifty years ago. He can give us cards and spades, all of us, to-day, and beat us. [Laughter.]

The CHAIRMAN. Yet the southern farmers, the producers of cotton, are practically unanimous in demanding legislation along this line.

Mr. SNYDER. There is no relationship between dealing in grain and dealing in cotton, sir.

The CHAIRMAN. Can you differentiate between them, in a word or two?

Mr. SNYDER. In the first place, permit me to read this for a moment:

SEC. 12. Wheat sold for spot or future delivery—

This comes back to your first question, Mr. Chairman, and answers it—

unless otherwise specified, shall be known as contract wheat. Upon such sales the seller shall have the right to deliver No. 2 red winter wheat, or No. 2 red winter wheat, western—

That is wheat grown west of the Ohio River, and that is qualified in that grade. It is wheat that has no garlic in it. In our section of the country garlic is permitted in the grade of No. 2 red wheat; and the difference between the No. 2 red winter and the No. 2 red western is that the No. 2 red western is not permitted to have any garlic——

And or No. 1 hard spring wheat, and or No. 1 northern spring wheat, Baltimore inspection, at same price.

SEC. 13. Forms of contracts. Buyer's contract, Baltimore Chamber of Commerce.

No. ——. BALTIMORE, ———, 19—.

For value received — have this day bought and agreed to receive from —— bushels contract wheat ———, Baltimore inspection, at ——— cents per bushel, deliverable in the elevators at seller's option, during the month of ———, 19—.

The seller has the right to deliver No. 2 red winter wheat, and or No. 2 red winter wheat western, and or No. 1 hard spring wheat, and or No. 1 northern spring wheat on this contract at same price.

Certificates tendered on this contract must have not less than three days' free storage. In case of dispute, it is mutually agreed that the matter shall be referred to the arbitration of three members of the chamber—two of the arbitrators to be respectively chosen by the parties in dispute, they to select a third—and the decision of a majority of the arbitrators shall be final and binding. This contract is to be governed by the rules, regulations, and by-laws of this chamber in force at this date.

If a margin or security has been put up by ——— the decision of the arbitrators shall be made known to the committee on margins, and that committee shall sign an order for the release of the margin or security.

Bushels at ———. ——— ———.

The seller's contract is just the same, except the word "seller" appears where here it is the word "buyer."

Mr. McDERMOTT. Would that committee's decision be final?

Mr. SNYDER. Yes, sir. There is one thing more, Mr. Chairman and gentlemen. I want to call your attention to just one thing more in this book, at page 67:

MARGIN BANKS.

The following city banks have been designated as margin banks, viz: First National Bank, 17 South street; Farmers and Merchants' National Bank, corner South and Lombard streets; Citizens' National Bank, Pratt and Hanover streets; National Union Bank of Maryland, 3 and 5 East Fayette street; National Marine Bank, Gay and Water streets; National Bank of Commerce, 26 South street; Merchants' National Bank, South and Water streets; National Mechanics' Bank, South and German streets; Commercial and Farmers' National Bank, Howard and German streets.

You will notice, sir, that every one of these banks designated as margin banks, where margins must be put up between the buyer and the seller, in the case of our exchange, are national banks. They are national banks. There is not a single state bank or city bank.

The CHAIRMAN. What difference does it make what kind of a bank the margin is put up in?

Mr. SNYDER. These banks are all governed by Congress, by the Senate and the House. They are governed by the United States. The state banks are governed, as I understand, by the state laws when the laws do not conflict with the Constitution of the United States; but these are banks that are chartered by the Government, showing that they are strong. The banks are strong to the extent of their deposits, so that the man who puts up a margin will not lose the margin because of putting it in a weak vessel.

The CHAIRMAN. You think that the chamber of commerce is very much to be commended then for——

Mr. SNYDER. For putting every safeguard around every trade that comes before its members.

The CHAIRMAN (continuing). For taking care of the money that is put in it.

Mr. SNYDER. Yes, sir.

Mr. COCKS. There is a way for the money to get out, though, and for the fellow to lose his money, even if the bank does not break.

Mr. SNYDER. But the money can not get out. When the trade is cleaned up both the buyer and the seller must release the bank.

Mr. COCKS. Do you not believe if the margin proposition were eliminated, so far as outside people are concerned, that it would greatly reduce speculation?

Mr. SNYDER. Certainly, sir. If the gentleman on my left, with all due respect, sent an order to me, I would not fill the order unless the margin accompanied it.

Mr. COCKS. If a check accompanied the order it would be executed——

Mr. SNYDER. Yes.

Mr. COCKS (continuing). As long as the margin is up. Would it not be possible for the exchange to adopt some rule to prevent that kind of business?

Mr. SNYDER. From outside people?

Mr. COCKS. Yes.

Mr. SNYDER. You may, Mr. Cocks, want to buy as a miller. You may want to buy 10,000——

Mr. COCKS. No.

Mr. SNYDER. The supply being exhausted in your neighborhood, you may want to buy on the market.

Mr. COCKS. No; if you want to take me, do not take me as a miller. Take me as one of these rapscallions who comes along the street with more money than brains.

Mr. SNYDER. I can not do that in this case. I must put you down as an honest miller [laughter]. The supply of grain——

Mr. HAWLEY. The presumption is that everybody who applies to a member of your chamber of commerce to buy or to sell is honest?

Mr. SNYDER. Naturally—even Mr. Cocks. We would look upon him in that way [laughter]. Now, all joking aside, gentlemen——

Mr. COCKS. My point is this: That if your grain people, the members of your chamber of commerce, or the members of the various grain exchanges, ceased taking orders from outsiders on margin, that would eliminate a whole lot of speculation. I do not know that a law could reach it, but the rules of the exchange might reach it in some way. For instance, this letter I have here in my hand solicits business.

Mr. SNYDER. Yes.

Mr. COCKS. But never mind whether it solicits or not. Some fellow comes along, and you know that he is not a miller, that he is not a farmer, and that he is not in any way connected with it. He would speculate in anything.

Mr. SNYDER. Yes, sir.

Mr. COCKS. Is there not some way in which that fellow could be gotten out?

Mr. SNYDER. I presume he could be gotten out, provided it did not go so far as to interfere with other people.

Mr. COCKS. That is just the point exactly that we are after.

The CHAIRMAN. Suppose it comes to a question of either eliminating that fellow or eliminating your exchange?

Mr. SNYDER. Then eliminate that fellow and let us go on with our business.

The CHAIRMAN. Do you not think you could find some way to do it?

Mr. SNYDER. I have no doubt, Mr. Chairman, that it could be done; but it would require very, very careful thought and consideration.

Mr. HAWLEY. Have you ever appointed a committee to take up that question?

Mr. SNYDER. We have not, because speculation is the least feature in our market.

The CHAIRMAN. Speculation could be eliminated in your market without interfering with the legitimate business?

Mr. SNYDER. Without seriously interfering with the legitimate business. You gentlemen may not know it, but Baltimore is the largest exporter of corn in the United States to-day. We bring more corn from the West than any market. We export more corn grown in the West than any market in the United States, and, Mr. Chairman and gentlemen, we do it all the year round when we can get hold of it. The Gulf only does it at certain periods, because the germinating season comes on earlier, and they have to pull out. The corn will not keep when shipped through Gulf ports.

The CHAIRMAN. Do you think the rank speculation in your chamber of commerce has any influence on the legitimate trade?

Mr. SNYDER. No, sir.

The CHAIRMAN. Are there any further questions?

Mr. LEVER. To eliminate the rank speculator would not interfere with the export business of the country, would it?

Mr. SNYDER. To eliminate the maker of corners, the rank speculator, would not interfere with it. If the rank speculator could be eliminated, I, as a receiver and exporter of grain, as a dealer with the shipper of the West, and as a seller to the foreign buyer, would be very glad to see him eliminated.

Mr. HAUGEN. Have you any suggestion to offer as to how to eliminate him?

Mr. SNYDER. I would not like to undertake to do that.

Mr. HAUGEN. Undoubtedly you have given this matter consideration.

Mr. SNYDER. I considered that I was coming before a committee that I was very much afraid I would be afraid of. [Laughter.]

Mr. HAWLEY. If you have any suggestion to make we would like to have it.

Mr. SNYDER. I have no suggestion to make right offhand.

The CHAIRMAN. He has repeatedly said that he had not any suggestion to make.

Mr. BEALL. I understand that your exchange has been in existence for 54 years?

Mr. SNYDER. Yes, sir.

Mr. BEALL. For what portion of that time has future trading been permitted?

Mr. SNYDER. I do not know that I could give you the exact year. I should say since I have been a member of the exchange—about thirty years. There has been future trading in that exchange during my membership.

Mr. BEALL. Do you know whether, during the early years of your exchange's history, dealing in futures was or was not permitted?

Mr. SNYDER. I could not tell you, before I became a member. I can say one thing to you, gentlemen. Before the time of the elevators, the cars were brought in from the country on the street tracks and bags of wheat, corn, and rye were carried up ladders on the backs of niggers and stored in the warehouse.

Mr. BEALL. I understand that on your contracts four grades of grain are deliverable where no particular grade is specified.

Mr. SNYDER. No.

Mr. BEALL. Four classes of grain?

Mr. SNYDER. No; the particular grade must be specified. I have explained that you say "May wheat."

Mr. BEALL. You say "May wheat." You do not say No. 1 hard?

Mr. SNYDER. No, sir.

Mr. BEALL. Or No. 2?

Mr. SNYDER. No, sir.

Mr. BEALL. You say "May wheat?"

Mr. SNYDER. Yes, sir.

Mr. BEALL. Under that sort of a contract the dealer can deliver either one of the four kinds?

Mr. SNYDER. Yes, sir.

Mr. BEALL. Can he deliver some of each kind?

Mr. SNYDER. Oh, yes; he can.

Mr. BEALL. He can deliver all of any one grade, or he can deliver part of each of the four grades?

Mr. SNYDER. Yes, sir; he can do that.

Mr. BEALL. Can he deliver any other kind of wheat?

Mr. SNYDER. No, sir.

Mr. BEALL. Is there any sort of penalty attached to it?

Mr. SNYDER. No, sir; unless by a mutual agreement.

Mr. BEALL. He can deliver one of the four kinds?

Mr. SNYDER. Yes, sir. Further, it says here "Wheat sold for spot for future delivery unless otherwise specified." As I tried to explain, when I sell you No. 2 red wheat, that is otherwise specified "May delivery," I must deliver you No. 2 red. I tried to explain that to you a few minutes ago.

Mr. BEALL. Suppose under one of these contracts the seller tenders wheat that does not come within any of these grades, is there any way by which that can be forced on the buyer?

Mr. SNYDER. "In case of dispute, it is mutually agreed that the matter shall be referred to the arbitration of three members of the chamber—two of the arbitrators to be respectively chosen by the parties in dispute, they to select a third—and the decision of a majority of the arbitrators shall be final and binding."

Mr. MERRILL. Mr. Snyder, I beg your pardon; but Mr. Beall, I think, wants to know if No. 3 or No. 4 wheat could be delivered on that contract.

Mr. SNYDER. It could not.

Mr. BEALL. If those arbitrators decide that it is not one of these four grades, can that wheat be forced upon the buyer at all?

Mr. SNYDER. There is no difference whatever. It can not be forced upon the buyer. You must deliver on your contract one of the four grades.

Mr. BEALL. How is that wheat then disposed of in your market? Suppose it comes below any one of these four grades?

Mr. SNYDER. It is disposed of on its merit.

Mr. BEALL. By sample?

Mr. SNYDER. No; I can sell No. 3 or No. 4. The grades are set forth in this book as to what shall constitute No. 1, No. 2, No. 3, or No. 4.

Mr. BEALL. Under that contract, then, if they specify that No. 3 can be delivered——

Mr. SNYDER. Then No. 3 may be delivered.

Mr. BEALL. It may be.

Mr. SNYDER. Yes; but you can not force the buyer to take it.

Mr. BEALL. You are in the grain business. John Smith, down here at Richmond, sends you $500 with directions to buy for him a certain number of bushels of wheat, Baltimore contract.

Mr. SNYDER. Pardon me; for a certain month?

Mr. BEALL. Yes. Usually his margin is 5 cents a bushel. That would be 10,000 bushels, with $500 as a margin.

Mr. SNYDER. Yes, sir.

Mr. BEALL. You would sell that wheat for him——

Mr. SNYDER. I would buy it for him, if he sent me an order to buy it for him.

Mr. BEALL. Well, he sends you an order to sell it.

Mr. SNYDER. Then I would sell it for him.

Mr. BEALL. You do not know John Smith?

Mr. SNYDER. Not at all.

Mr. BEALL. You say, though, that under the contract you would make for him that delivery was contemplated, and you would sell 10,000 bushels to somebody else, and you would notify John Smith that you had sold it.

Mr. SNYDER. Yes, sir.

Mr. BEALL. John Smith would know to whom you had sold it?

Mr. SNYDER. Yes, sir.

Mr. BEALL. And the party to whom you sold it would know from whom he bought it?

Mr. SNYDER. Not necessarily.

Mr. BEALL. Well, would that transaction end your connection with the matter?

Mr. SNYDER. Not until it is closed; not until the wheat is bought back or delivered to the buyer.

Mr. BEALL. Now, Bill Jones, from down in Alabama, sends you an order to buy for him 10,000 bushels of wheat, and sends you $500. You would buy it, would you?

Mr. SNYDER. Yes, sir; if I knew Bill Jones.

Mr. BEALL. That is the point I was getting at. In the one case, John Smith sends you an order, accompanied by $500, to sell.

Mr. SNYDER. And I know John Smith.

Mr. BEALL. No, you do not know him.

Mr. SNYDER. I would not deal for him if I did not.

Mr. BEALL. You would not sell it.

Mr. SNYDER. No, sir.

Mr. BEALL. If he sent you the $500?

Mr. SNYDER. I would have to know that his check was good.

Mr. BEALL. Suppose he sent you New York Exchange?

Mr. SNYDER. Then I would deal for him.

Mr. BEALL. You would want to know, of course, whether his check was good only so far as the $500 was concerned. If he sent you $500 in money, you would sell the 10,000 bushels of wheat for him?

Mr. SNYDER. Necessarily.

Mr. BEALL. You would not make any inquiries as to whether John Smith had any wheat or not?

Mr. SNYDER. No, sir; it would be none of my business.

Mr. BEALL. None of your business?

Mr. SNYDER. Not a bit.

Mr. BEALL. And you would not make any inquiries to find out whether it was within his power to deliver that 10,000 bushels of wheat?

Mr. SNYDER. No, sir.

Mr. BEALL. Is that the system that prevails on the Baltimore Exchange?

Mr. SNYDER. No, sir; that is not the system that prevails. John Smith sends me a check for $500 to sell 10,000 bushels of wheat. I sell it for him, for May wheat; and if he wants to buy that wheat in before the month of May, I charge him a quarter of a cent a bushel for the transaction.

Mr. BEALL. Well——

Mr. SNYDER. I am trying to get it the way you want it. I charge a quarter of a cent a bushel for the transaction. If, on the other hand, John Smith sees proper to ship that wheat and fill his contract, he pays the excess commission.

Mr. BEALL. He may not have any wheat.

Mr. SNYDER. Then he makes an option deal of it.

Mr. BEALL. You would execute it on New York Exchange?

Mr. SNYDER. I would.

Mr. BEALL. Without any inquiry as to whether he could, if delivery was demanded, deliver 10,000 bushels to this other man that bought the 10,000 bushels, you would execute that order?

Mr. SNYDER. Yes, sir.

Mr. BEALL. Without any inquiry as to whether or not the other man would be able to pay for that quantity of wheat, if delivery was tendered to him?

Mr. SNYDER. Yes, sir. If his margin is being exhausted—and that is one thing that you gentlemen seem to lose sight of—I have at any time the privilege of calling for additional margin.

The CHAIRMAN. Suppose he does not respond?

Mr. SNYDER. Then I have the privilege of selling him out, and sending him any profit that may have accrued, or charging any loss that may have resulted.

Mr. HAUGEN. You do that to protect yourself?

Mr. SNYDER. I do that to protect myself. Our rules cover it.

Mr. BEALL. So far as you know, does that same method of dealing apply to the other exchanges of the country?

Mr. SNYDER. Yes, sir.

Mr. BEALL. But where an order is accompanied by cash the order is executed?

Mr. SNYDER. We are in business for that purpose.

Mr. BEALL. Without any inquiry as to the ability of the man to complete that contract if the necessity should arise for it?

Mr. SNYDER. Yes, sir; the other exchanges do the same thing.

Mr. BEALL. Are you not engaging in speculation pure and simple when you execute that sort of an order?

Mr. SNYDER. Not at all, sir.

Mr. BEALL. You would not inquire——

Mr. SNYDER. I am filling a legitimate order.

Mr. BEALL. Do you call that a legitimate business upon an exchange, when you will sell for a man 10,000 bushels of wheat without the slightest knowledge as to whether or not he is able to deliver it, or without any thought as to whether or not he expects to deliver it?

Mr. SNYDER. I will answer your question by saying this: Suppose you want to buy an automobile, and you go into an automobile place of business. You are a perfect stranger, and they ask $3,000 for the automobile. You want it to-day, or next week, and you put down the money or give a certified check——

Mr. BEALL. I would have to put down the money for the value of the automobile.

Mr. SNYDER. Of course, if you are going to take it right away—of course you would.

Mr. BEALL. Do you know of an automobile dealer that would permit me, without any inquiry as to my responsibility, to put up about 5 per cent——

Mr. SNYDER. Yes; 5 per cent.

Mr. BEALL. Of its value?

Mr. SNYDER. And I will take your order right now.

Mr. BEALL. And take the automobile away?

Mr. SNYDER. I will take your order right now, and deliver the automobile to you in May, and then you pay me the difference. I will take your order and place it with an automobile man—and I am not in the automobile business.

Mr. BEALL. But the automobile would never be delivered until the balance of the money was paid.

Mr. SNYDER. Of course not. Neither would the wheat be.

Mr. BEALL. That is the very point. In that sort of trade you have no assurance that any delivery is contemplated or that the party who buys the wheat is capable of having delivery made to him, and yet you call it a bona fide transaction.

Mr. SNYDER. I will give you an instance right here. I bought from the Armour Grain Company 25,000 bushels of corn. I bought it as a hedge against three loads of corn that I sold for a certain shipment. The Baltimore market got away from me overnight, and as soon as the market opened I wired to the Armour Grain Company, Chicago: "Buy twenty-five December corn." They bought the twenty-five December corn, and the market went against me. This is an actual demonstration, gentlemen. The market went against me. I took the delivery of the corn in Chicago. The market went down. In the meantime I bought my corn in Baltimore and shipped it to Europe. I took delivery by Armour. They sent in the papers—and if you want them I will send them to you—giving the names of the parties, with the delivery date, and I sold it out as cash corn. There is the other side of the transaction. I sold out the cash corn in Chicago

and made money on it. If I had closed my option I would have lost on it.

Mr. BEALL. The only thing I want to be clear on is as to whether you would sell 10,000 bushels of grain without any knowledge of the responsibility of the man for whom you sell it.

Mr. SNYDER. If he sends me New York Exchange——

Mr. BEALL. For the margin and all?

Mr. SNYDER. No, sir; for the commission I get out of it; not the margin. The margin protects me.

Mr. BEALL. I understood that if a man sent you $500, which is 5 cents a bushel on 10,000 bushels of grain, with directions to you to sell 10,000 bushels of grain for him, you would do it?

Mr. SNYDER. Yes, sir.

Mr. BEALL. And you would make no inquiries as to the financial responsibility of the man?

Mr. SNYDER. None whatever.

Mr. BEALL. Or whether he had any wheat or not, or whether there was any prospect of him having any wheat, or whether he expected to deliver any wheat or not?

Mr. SNYDER. Well, now, this question arises there: I might write to Mr. Smith, in confirming this transaction for him, and ask, "Is it your intention to ship this wheat, or to make an option trade of it?" That is often done.

Mr. BEALL. Suppose he said he wanted to make an option trade?

Mr. SNYDER. Then I would know exactly how to protect myself.

The CHAIRMAN. The only significance of that word "option," as you use it here, Mr. Snyder, is that it is within the option of the seller to deliver the grain on any day of the month specified that he may choose. There is no option about his delivery. He must deliver it?

Mr. SNYDER. He must deliver, or pay for it.

Mr. HAWLEY. The option attaches as to the day of the month.

Mr. BEALL. Let us stick to this case of John Smith from Richmond. If he sends you $500 with the direction to sell 10,000 bushels of wheat for him, you will sell that?

Mr. SNYDER. Yes, sir.

Mr. BEALL. Or, if he sends $500 with directions to buy 10,000 bushels of wheat for him, you will buy?

Mr. SNYDER. Yes, sir; I will do it as quickly as I possibly can.

Mr. BEALL. Without——

Mr. SNYDER. It makes no difference whether he is from Richmond or from Alabama.

Mr. BEALL. Without knowing whether he is able to deliver the wheat or capable of receiving it?

Mr. SNYDER. It makes no difference where he is from—Kansas or Washington or anywhere else.

Mr. BEALL. Of course.

Mr. SNYDER. If he was from Alabama the chances are the order would be for cotton, and I would know nothing about it.

Mr. BEALL. It makes no difference where he lives. The system is what I am talking about.

Mr. SNYDER. I would fill that order if it was possible to fill it.

Mr. MERRILL. To follow the line of the Congressman's inquiry, is it not true that in buying that wheat on the order so outlined you fully expect to receive the wheat on that purchase?

Mr. SNYDER. No; not until I know. I must say not until I know the John Smith he refers to.

Mr. MERRILL. No; I beg your pardon. Not that you expect to receive the wheat from John Smith, but you expect to receive it from the man you buy it of for him.

Mr. SNYDER. The chances are that I may take the wheat in and close up his trade, and not have to put up money——

Mr. MERRILL. No; but suppose you only had the one trade on your book, John Smith's trade, and you bought the 10,000 bushels in the open market for him, and later on he ordered you to sell that out. Is it not true that the wheat would be delivered to you, and by you delivered out, on the buying sale for his account?

Mr. SNYDER. It is done every day in the year.

Mr. MERRILL. And the delivery is absolute, and is intended in every instance?

Mr. SNYDER. It is done every day in the year. I will tell you that this is done too. When that wheat is delivered, I will deal for him under our rules, for a quarter of a cent a bushel, just the same as if he had shipped me 10,000 bushels of wheat. He pays the same commission for handling it.

Mr. BEALL. You get the commission, coming and going?

Mr. SNYDER. Yes, sir; everything.

Mr. BEALL. Suppose he does not put up any more than $500?

Mr. SNYDER. If the margin is being exhausted, I close him out.

Mr. BEALL. You sell him out?

Mr. SNYDER. I buy him in.

Mr. BEALL. You buy him in of somebody else?

Mr. SNYDER. Yes, sir.

Mr. BEALL. Suppose you buy him in for Bill Johnson——

Mr. MERRILL. You do not mean that you buy in wheat intended for the account of John Smith, for the account of somebody else?

Mr. SNYDER. I buy in wheat that I have sold for him from whoever I please.

Mr. MERRILL. From somebody else. Not for somebody else.

Mr. SNYDER. From somebody else.

Mr. BEALL. Suppose you buy from Bill Johnson, of Indiana.

Mr. SNYDER. No, sir; I beg your pardon. I buy it on the floor of the exchange.

Mr. BEALL. Well, you buy it from some broker who is selling it for somebody else.

Mr. SNYDER. Yes, sir.

Mr. BEALL. Suppose he is selling it for Bill Johnson over in Indiana. Bill has sent in $500 with directions to sell for him 10,000 bushels of grain.

Mr. SNYDER. Yes.

Mr. BEALL. He sells the 10,000 bushels of grain that you buy.

Mr. SNYDER. Yes, sir.

Mr. BEALL. He has made no inquiry as to whether or not Bill Johnson expects to deliver any grain. In all those transactions can you see any actual delivery of the wheat?

Mr. SNYDER. The wheat has to be in the country before it can be traded in.

Mr. BEALL. Do you not——

The CHAIRMAN. Pardon me. You do not mean that, do you?

Mr. SNYDER. I do mean it, sir.

The CHAIRMAN. Do you mean to say to this committee that no more wheat is traded in than there is in the country?

Mr. SNYDER. Oh, no; I do not mean that.

The CHAIRMAN. I thought you did not mean what you said.

Mr. SNYDER. But you seem to lose sight of the fact that a million bushels of wheat may be traded in where there are only half a million bushels of stock in sight.

The CHAIRMAN. We understand that perfectly.

Mr. SNYDER. It was testified to the other day—I think the gentleman from South Carolina asked the question—that hogs had been sold at $9.80, which was the highest price in forty years, and the gentleman from South Carolina suggested that that was because the farms were depleted. If you will permit me to say it, the farmer in the United States is not fool enough to give away his basis of supply because there is a little advance in the market. Thousands of boars are kept on the farm. They are not sold off. The pigs are there, and they are growing into money. It is the basis of supply.

The CHAIRMAN. I did not mean to divert you. I merely wished to call your attention to a statement that I was sure you did not want to stand in the record.

Mr. SNYDER. I think there is almost as much grain on the farms of the country to-day—within 50 per cent, on the farms to-day—as was raised. The man who did not ship his grain early is the man who is getting the high price. The man who did ship his grain early got his money for it. He was willing to do it as a matter of barter and sale.

The CHAIRMAN. I did not mean to divert you.

Mr. SNYDER. To answer your question, I will say, yes, sir.

Mr. BEALL. John Smith sends down an order, accompanied by $500, to buy him 10,000 bushels of grain. Bill Johnson, over in Indiana, sends to some other person an order to sell for him 10,000 bushels of grain, and he sends $500. You buy for Smith from the broker who represents Bill Johnson 10,000 bushels of grain. The broker who represents Johnson sells to you 10,000 bushels of grain for delivery by Johnson.

Mr. SNYDER. No; not at all.

Mr. BEALL. Both Smith and Johnson are using the Baltimore Exchange, and with no expectation of delivering that grain on the one hand or of receiving it on the other. Is not that a gambling transaction pure and simple?

Mr. SNYDER. I think not, sir. In the first place, I do not know Smith and I do not know Jones—yes, I know Smith.

Mr. BEALL. That is the very point I am getting at.

Mr. SNYDER. I know Smith because he sends me the order to sell for him 10,000 bushels of grain. I do not know there is a Jones in the transaction. I make the returns to Smith. I have nothing to do with Jones.

Mr. BEALL. As long as you get your commission, you are indifferent whether this man over here expects to deliver 10,000 bushels of grain, or whether that man over yonder expects to receive it.

Mr. SNYDER. But do not lose sight of the fact that the grain may be delivered to me if he is entirely satisfied, and I may have to pay 100 cents on the dollar for it, and put it out on the market again. He may deliver that grain. He may not buy that grain in.

The CHAIRMAN. Are there any further questions?

Mr. MERRILL. I want to have the record right in respect to hedging. Is it not true, sir, that a large part of the hedging, which of necessity is in contract grades, is for the protection of the off grades which can not be delivered?

Mr. SNYDER. Naturally.

Mr. MERRILL. The gentleman says "naturally."

Mr. HAUGEN. A moment ago you referred to excess commission. I infer from what you said that in case of delivery there is an extra commission charged.

Mr. SNYDER. For hedging; yes.

Mr. HAUGEN. I thought the commission would be one-quarter of a cent.

Mr. SNYDER. On the original deal there is a commission of one-quarter of a cent. Take corn, for instance. If the corn is delivered, then I charge the usual price for handling the actual corn—half a cent a bushel.

Mr. HAUGEN. Half a cent, for corn?

Mr. SNYDER. Yes.

Mr. HAUGEN. That is what you charge?

Mr. SNYDER. For handling the actual corn.

Mr. HAUGEN. Half a cent?

Mr. SNYDER. Half a cent.

Mr. HAUGEN. Now, John Smith sells 10,000 bushels of corn to be delivered in May. What is required of him to do? First he puts up the margin?

Mr. SNYDER. First he puts up the margin.

Mr. HAUGEN. To pay one quarter of a cent?

Mr. SNYDER. Yes, sir.

Mr. HAUGEN. Then what happens when the month of May comes?

Mr. SNYDER. If John Smith has shipped that corn?

Mr. HAUGEN. If he has shipped it.

Mr. SNYDER. If he has shipped it he has his margin to his credit——

Mr. HAUGEN. Certainly.

Mr. SNYDER. He has the margin to his credit, and I handle that actual corn for him, and charge him half a cent a bushel, and interest for paying his draft, and taking in the corn through the elevators, and selling it and putting it out, and making the return to him.

Mr. HAUGEN. We will say the price is half a dollar a bushel, which would be $5,000 that you sell it for. What are the commissions?

Mr. SNYDER. Half a cent a bushel.

Mr. HAUGEN. What is the net amount that is returned to Mr. Smith?

Mr. SNYDER. The net amount is less his freight, and his commission and interest. He has to pay the freight.

Mr. HAUGEN. Certainly.

Mr. SNYDER. Less the freight, interest, elevator, insurance——

Mr. HAUGEN. What is the interest?

Mr. SNYDER. Six per cent.

Mr. HAUGEN. On what?

Mr. SNYDER. On the advance made for him.

Mr. MERRILL. They always draw drafts.

Mr. SNYDER. He will draw 75 per cent of the draft.

Mr. HAUGEN. We will leave the bill of lading and the sight draft out.

Mr. SNYDER. Then we just charge him the freight and the elevator charges.

Mr. HAUGEN. What are the elevator charges?

Mr. SNYDER. He has free elevation in Baltimore for the first twenty days. After that there is a charge of an eighth of a cent for each five days.

Mr. HAUGEN. Suppose he ships it according to contract.

Mr. SNYDER. There is another thing. If I sell 10,000 bushels for him I can deliver it car by car.

Mr. HAUGEN. Without going through the elevator?

Mr. SNYDER. No, sir; it must get the certificate. It must be inspected, and there is a charge for the inspection.

Mr. HAUGEN. It must go to the elevator to be inspected?

Mr. SNYDER. Yes, sir.

Mr. HAUGEN. What are the charges at the elevator?

Mr. SNYDER. The charge for inspection is 50 cents a car; and the charge for elevation is three-quarters of a cent a month, after the first twenty days.

Mr. HAUGEN. But he delivers it on contract.

Mr. SNYDER. Then there is no additional elevation where he delivers it out on the first twenty days.

Mr. HAUGEN. I am trying to get at——

Mr. SNYDER. I will put it down so that you can read it. (Making memorandum for Mr. Haugen.) The freight——

Mr. HAUGEN. Suppose he prepays the freight?

Mr. SNYDER. Then I charge him a commission of half a cent a bushel; inspection 50 cents a car; weighing, I think that is 25 cents a car now—we will put it that way. This is per car. He has to get out the quantity, you know, as well as the quality.

Mr. HAUGEN. There is no dispute as to these charges. I want to get at the elevator charge.

Mr. SNYDER. He has paid the freight; he has made no draft; commission, half a cent a bushel; inspection, 50 cents a car; weighing, 25 cents a car; elevation, one-eighth of a cent for each five days.

Mr. HAUGEN. Why should there be a charge of one-eighth of a cent for the elevation if he has delivered it according to the contract?

Mr. SNYDER. He has not delivered it according to the contract unless it comes to the elevator. In some places the elevation is a part of the railroad rate; but it is against the interstate commerce law that such should be the case.

Mr. HAUGEN. If the grain was shipped through——

Mr. SNYDER. Shipped through to Europe?

Mr. HAUGEN. Wherever it is destined for.

Mr. SNYDER. He would have to pay that charge.

Mr. HAUGEN. I mean spot delivery.

Mr. SNYDER. On the car?

Mr. HAUGEN. On cash delivery.

Mr. SNYDER. Cash delivery, sir——

The CHAIRMAN. One minute. Both of you gentlemen are talking at the same time, and you are talking to each other. The stenographer will get no record at all.

Mr. HAUGEN. If I consign 1,000 bushels of grain or corn to Baltimore and it is sold under cash sales, there are no charges for elevation, are there?

Mr. SNYDER. If you have sold it?

Mr. HAUGEN. I am talking about spot market, cash market.

Mr. SNYDER. Our market is a cash market.

Mr. HAUGEN. I am trying to get to the point.

Mr. SNYDER. Have you sold it?

Mr. HAUGEN. I have consigned you 1,000 bushels of grain.

Mr. SNYDER. And I am selling it for you.

Mr. HAUGEN. What are the charges?

Mr. SNYDER. Just as I gave them to you.

Mr. HAUGEN. One-eighth of a cent for elevation?

Mr. SNYDER. Yes, sir.

Mr. HAUGEN. Cash sale?

Mr. SNYDER. Yes, sir.

Mr. HAUGEN. That is not the case in Chicago.

Mr. SNYDER. It is not? I guess you are wrong.

Mr. MERRILL. That is peculiar to Baltimore.

Mr. SNYDER. You are talking about track stuff, and I am talking about contract stuff.

Mr. HAUGEN. I am trying to get at the difference.

Mr. SNYDER. If the car was on the track the commission would be greater than if it went through the elevator, as there would be more labor attached to it.

The CHAIRMAN. What is your idea? This is hardly germane.

Mr. HAUGEN. I am trying to get at the difference. I am trying to get at the difference in the amount these people are held up for. That is what I am trying to do. If they are being held up I want to know it.

Mr. SNYDER. You have got Chicago confused with Baltimore.

Mr. HAUGEN. Do I understand you to say that there is this difference in the track transaction and the future transaction?

Mr. SNYDER. No, sir; you are confused. I want to try to unravel you, if you will permit me.

Mr. HAUGEN. Go on with the transaction.

Mr. SNYDER. You are talking about Chicago, and I am talking about Baltimore. You are talking of a track sale, and I am talking of an elevator sale. If I buy of either of you gentlemen, Baltimore grading, you have not fulfilled your contract until that grain is graded, and until it is weighed, and it can not be weighed until it is weighed in the elevator. That is the Baltimore system. You are confused in that. You are buying at Chicago on track, and there is no elevator charge.

Mr. MERRILL. Tell him about Baltimore.

Mr. SNYDER. I buy in Baltimore on the Baltimore grading, and mixed corn is our contract grade. In Chicago——

Mr. HAUGEN. Let us carry it through.

The CHAIRMAN. Has he not given you a statement of all the charges?

Mr. HAUGEN. I want to follow that through.

Mr. SNYDER. You sell me 10,000 bushels of mixed corn, Baltimore terms, May delivery.

Mr. HAUGEN. You have stated that would be the future.

Mr. SNYDER. Is that plain?

Mr. HAUGEN. The next question would be, if I ship you 10,000 bushels of corn, and you sell that 10,000 bushels of corn to Mr. John Smith, a miller of Baltimore, what are the charges?

Mr. SNYDER. Are you consigning or selling me this corn?

Mr. HAUGEN. I am consigning it.

Mr. SNYDER. And I sell it to a miller?

Mr. HAUGEN. Yes; at Baltimore.

Mr. SNYDER. On the track now, sir?

Mr. HAUGEN. You sell it to the miller.

Mr. SNYDER. But there are different ways of selling to the miller. Do you mean in the elevator or on the track?

Mr. HAUGEN. Well, that is for you to explain.

Mr. SNYDER. I sell it to the miller on the track, and we send it to the mill, and I charge you a cent a bushel. I put it through the elevator for half a cent a bushel commission. One is the local export rate, and our by-laws control it, and the other is the domestic rate. You want to eliminate the commission. You want me to sell 10,000 bushels of corn, Baltimore terms for myself. That is the easiest way. It gives the lowest rate and the lowest charge.

Mr. HAUGEN. I want to get at the facts. I am somewhat familiar with the manipulation of these matters both in the stock yards and in the exchanges, and I am trying to find out what extra charges are imposed that might be eliminated, if there are any such.

The CHAIRMAN. We are considering bills, Mr. Haugen, looking to the elimination of future dealing, where no delivery is intended. I do not know just what the rest of the committee think——

Mr. HAUGEN. You do not care as to the methods that are employed.

The CHAIRMAN. I do not see what the connection is between the line of questions you are asking and the purpose of the bill.

Mr. HAUGEN. My position is that this business should be eliminated, or that there should be some reason for it. If the transactions are legitimate, if there is nothing to investigate as to the methods employed, what is all this investigation about? If it is gambling, I think this committee ought to know it. My purpose is to investigate as to the methods that are employed; how these people are held up at an extra expense of one-quarter or half a cent, or whatever it may be, through the operation of buying for future delivery. That is what I want. We have been told all the time that these transactions are legitimate, and that no extra charge is exacted from anyone. If that is the case, I see no reason why the practice should be eliminated.

The CHAIRMAN. I thought all your questions were directed to transactions in actual grain.

Mr. HAUGEN. I am trying to find out where the hold up is.

The CHAIRMAN. Whereas the bills contemplate transactions in phantom grain, if there are any such.

Mr. HAUGEN. Now, if Mr. John Smith buys 10,000 bushels of corn for May delivery, what is he expected to do—the price on time-being 50 cents a bushel?

Mr. SNYDER. He would pay for it on delivery.

Mr. HAUGEN. How much?

Mr. SNYDER. Fifty cents a bushel.

Mr. HAUGEN. And that is all?

Mr. SNYDER. That is all.

Mr. HAUGEN. Are there no storage charges?

Mr. SNYDER. Three-quarters of a cent; but when he puts it out he gets the three-quarters of a cent back. That follows the grain right along from one to the other.

Mr. HAUGEN. That is refunded to him?

Mr. SNYDER. The country shipper does not pay it.

Mr. HAUGEN. If he buys 10,000 bushels of corn, how much is he expected to remit?

Mr. SNYDER. If he buys 10,000——

Mr. HAUGEN. The price being 50 cents a bushel.

Mr. SNYDER. He would have to remit the price and the commission charged.

Mr. HAUGEN. What are the charges?

Mr. SNYDER. Half a cent final commission, as of delivery there.

Mr. HAUGEN. Then what else?

Mr. SNYDER. Are there any advances on this?

Mr. HAUGEN. No.

Mr. SNYDER. Charge for elevation of one-eighth of a cent for each five days?

Mr. HAUGEN. One-eighth of a cent for each five days.

Mr. SNYDER. Or one-quarter of a cent for each ten days.

Mr. HAUGEN. There is one-eighth of a cent for elevation?

Mr. SNYDER. Yes.

Mr. HAUGEN. And that is all?

Mr. SNYDER. Yes, sir; but do not lose sight of the fact that these elevators are run at an expense. In our country there are public elevators for which there are established charges.

Mr. HAUGEN. Is that the only expense?

Mr. SNYDER. Yes, sir.

Mr. HAUGEN. That is all I want to know.

The CHAIRMAN. The witness will be excused.

Mr. MERRILL. Our next witness is Mr. Culver, of Toledo. Mr. Culver is chief inspector of grain in Toledo, and is the president of the Chief Grain Inspectors' Association of the United States. He is also familiar with the method of business there, and is the accredited representative of that exchange.

TESTIMONY OF MR. EDWARD H. CULVER, CHIEF GRAIN INSPECTOR, TOLEDO, OHIO, PRESIDENT CHIEF INSPECTORS' NATIONAL ASSOCIATION.

(Mr. Culver was duly sworn by the chairman.)

Mr. CULVER. Mr. Chairman, I am also the business manager of the Toledo Produce Exchange, in connection with my other titles. We want to file our objection to this bill, as we are the soft winter-wheat market of the United States, and I believe the only single-delivery market in the United States.

The CHAIRMAN. What do you mean by "single-delivery market?" That is a new term.

Mr. CULVER. I mean No. 2 red wheat.

The CHAIRMAN. You mean by that to say that your contract provides for the delivery of a single grade of wheat?

Mr. CULVER. The single grade of No. 2 red wheat, soft. It is made so by the fact that we are surrounded by the soft winter-wheat States

of Ohio, Indiana, Michigan, Kentucky, and Tennessee. The large millers of Knoxville, Louisville, Cincinnati, Columbus, Zanesville, New Philadelphia, and all the large milling centers do their principal hedging in our market, on account of their being soft winter-wheat mills, and they make such flour as the South requires for its hot bread.

The CHAIRMAN. Is there a large amount of speculative dealing in your market, aside from the hedging operations?

Mr. CULVER. There is not, aside from the hedging operations. We call them investments.

The CHAIRMAN. Then, if the bills that we are considering would not interfere with your hedging operations, they would not materially affect your market?

Mr. CULVER. They would affect our market, Mr. Chairman, in this way: Large investors come into our market at the time of the soft-wheat movement, which is July, August, and September. Our mills all over these States have a limited capital. They have elevators, most of them carrying from eight hundred thousand to a million and a half bushels of grain. They have to borrow a great deal of money when the wheat is moving, and to insure their profit they sell the future against it, so called, to the hedge States on that wheat until they have placed their orders with the merchants throughout the South and Europe, and they then do what we call buying in their hedge and taking their profit in between in the manufacture of their goods. But as for small speculation, we have not anything of that kind. I have at this moment, Mr. Chairman, a telegram from a man who should have been here instead of me. It was utterly impossible for him to get away, owing to the fact that our clover-seed business at this time is very active and we are making our foreign deliveries.

I would also state that Toledo is the only future clover-seed market in the world. We are the clearing house for the clover seed of the world; and the central west, you no doubt are aware, ships this seed in there to be stored in the months of September, October, and November. It is then sold differently from wheat, as it takes odd months. It takes January, February, and March deliveries. I asked this gentleman for an expression of opinion, he being one of the largest commission men that deals in futures, I believe, in the United States, and also one of the brightest men. He has summed it up here in a telegram, saying that he could not be present himself, and I would like to read it and to offer it as evidence, as it clears up shortly and briefly very many points that have been under discussion here, and I believe will satisfy the committee and answer a great many questions that have not been answered in this matter.

The CHAIRMAN. Without objection, the telegram will be read.

Mr. CULVER. He gives me the name of "Big Chief." (Reading:)

TOLEDO, OHIO, *February 21, 1910.*

Big Chief E. H. CULVER,
New Willard Hotel, Washington, D. C.:

Grain contracts for future delivery. United States has no monopoly on trading in grain futures. Liverpool last year traded in 215,000,000 bushels of wheat futures. Actual deliveries on contracts there were only 1,160,000 bushels. London, Paris, Antwerp, and other European markets trade in grain futures. Argentine, our latest and almost our greatest grain competitior, is trying to develop a future market there. Winnipeg and other Canadian markets would expand rapidly if Congress should restrict our grain trade. Present system has been a great benefit to our country for many years. It may not be perfect, but do not confuse bets made in bucket shops or puts and calls with grain contracts for future delivery made upon legitimate boards of trade.

Boards of trade are the grain markets of the world. Buyers and sellers, the farmers, dealers, millers, exporters, and speculators meet there every day in person or through brokers. They are not secret societies. Anybody can trade there. Millions of dollars are expended annually in gathering information regarding crops, supplies, and demand, present and prospective, and spreading it broadcast. Press associations keep the general public informed and the farmer gets it by phone and in the daily papers. Leading markets have continuous quotations posted wherever they are wanted for legitimate purposes. Bucket shops steal them; the information enables everybody to trade intelligently. It enables them to work upon a smaller margin than in any other business, directly benefiting both producer and consumer. Only an eighth commission is charged on futures and half cent on most cash grain. Boards are not trusts. Anybody can join if he has good reputation and some capital.

Grain contracts made upon regular boards are like any other to be filled in the future. There is no optional part except the day of delivery during the month specified. Delivery of the actual grain does not occur in every case, but it is intended when the contract is made. Sellers might be disappointed in their crops or find a better market elsewhere, and hence wish to cover the sale in the open market. Ninety-five per cent of the money transactions are settled through clearing houses with checks. The actual money seldom changes hands. In Liverpool, last year, only half of 1 per cent of the wheat futures traded in was actually delivered. Grain settlements are proper and legal. Supreme Court of United States so decided May 8, 1905, when Associate Justice Holmes said: "The sales in the pits are binding. A set-off is in effect a legal delivery. The fact is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money." Speculation enters into every kind of business activity. Lazy money does not develop our country. Farmers take chances. Manufacturers, jobbers, and retailers all seek orders months ahead, and speculate upon the future demand. They watch the crop outlook, as do the railroads, and depend upon the boards of trade for most of their information. Speculation takes the crops when farmers are the most anxious to sell, and carries the surplus until wanted by millers, feeders, and exporters. Restrict legitimate speculation and you restrict the demand. There are two kinds of speculation, legitimate and illegitimate. One moves the crops, the other is mere gambling. There is as much difference between regular boards of trade and bucket shops as between national and faro banks.

Respectfully submitted.

C. A. King & Co.

R. Boy Solomon.

The Chairman. You have had a great deal of experience in handling both ends of hedges, I presume.

Mr. Culver. I have been in the business since 1878.

The Chairman. Have you ever known of a case in which a hedge that was intended to protect a miller, for example, or any other grain dealer from loss as a matter of fact has inflicted a loss upon him?

Mr. Culver. Yes, sir.

The Chairman. How can that happen?

Mr. Culver. It can happen by corners in the grain that he is dealing in, which all markets are against, which all mills are against, and which all legitimate grain houses are against and are trying to eliminate.

The Chairman. In the cases which have come within your own observation, what was the occasion of the fluctuation which brought about the loss to the dealer?

Mr. Culver. The first case that came under my observation was what was known as the "Harper corner." I was then the official representative of the Carrington and Casey people, who developed the Dakotas and built the first elevator inside of the harbor at Duluth. This wheat manipulation went on in Chicago, and they made No. 1 northern and No. 1 hard deliverable in Chicago. The first I knew of it was when I got a wire from Mr. Casey to report at Duluth and load out every bushel of No. 1 hard and No. 1 northern that he had

in his elevators there and take it to Chicago, which I did. It is a matter of history that the Harper concern went broke.

Mr. MERRILL. That was about twenty years ago, was it not?

Mr. CULVER. A little over twenty years ago. I think it was about twenty-five or twenty-six years ago.

Mr. MERRILL. Yes.

Mr. CULVER. The next case was that of the Leiter deal. I had the pleasure of helping to break that man's back, and I was glad of it. While he was a beneficiary to the producer, yet he was a curse to the country, and a curse to the grain trade. We, in our little market, in our modest way, turned him over 14,000 bushels a day, and actually delivered it in Chicago, and made him pay cash for it, because he had upset the business world.

The CHAIRMAN. In both of these cases the unfortunate situation was brought about by a man who was merely speculating, gambling?

Mr. CULVER. That is it exactly, Mr. Chairman.

The CHAIRMAN. And that is the occasion for the introduction of all these bills.

Mr. CULVER. Yes.

The CHAIRMAN. You do not believe that that is a good thing, do you?

Mr. CULVER. Mr. Chairman, while it may help to introduce these bills, I do not think that it is the intent of the chairman to father a bill that is going to paralyze the entire grain trade and make it almost impossible for the man with the small mill to do business.

The CHAIRMAN. Is it your opinion that it would paralyze the entire grain trade to cut out the purely gambling features of the exchanges?

Mr. CULVER. Not the purely gambling features; no, sir.

The CHAIRMAN. That is the only thing that anybody is aiming at.

Mr. CULVER. In your bill you say "all farm products." Our case in seed is almost identical with that of Mr. Ames. We have brokers on our floor that may have prospective seed sales in Germany, in Australia, in Turkey, in Russia, in England, and France. Our surplus has to go abroad. It is an expensive luxury, and the ordinary man would have to have millions of dollars to handle. We could not borrow a dollar of it if we did not have the future sale against it. A man will go to work, and he will offer this stuff over night abroad, and will get his return in the morning by cable. For instance, he may have bargained for delivery up to 9.30, from his big seed warehouse, and they deliver it to him, and he ships the seed abroad to the other man and takes in his hedge.

The CHAIRMAN. I think we understand that. Have you ever thought about this question enough to have any clear idea in your own mind as to how the gambling might be eliminated and the hedging proposition still retained?

Mr. CULVER. It has been a study, Mr. Chairman, for a great many years, of our big thinkers, and the best men on our boards of trade and produce exchanges, as to how to eliminate that and to throw such safeguards and rules around the exchange and its members as to have it absolutely discontinued.

The CHAIRMAN. And what progress do you think they have made?

Mr. CULVER. I think in our market we have made very fast progress. The fact of the matter is, I do not believe a man can run a corner on our market. If there is a difficulty about whether delivery

has to be made, or does not have to be made, it is settled by our arbitration committee and our board of directors.

The CHAIRMAN. Do you have very much pure gambling on your board?

Mr. CULVER. No, sir; our board is more in the light of a hedging market for the soft-wheat millers and the seed men.

The CHAIRMAN. To what rule or rules of your exchange do you attribute the elimination of these gambling operations, if to any of them?

Mr. CULVER. Our board of directors foresaw years ago when these corners were run that it was disturbing the entire grain trade, and they got together and formulated some rule. Just what that rule is I can not tell you; I have not it with me. But I know this much: That they can not force a delivery beyond legitimate prices. You asked me with reference to corners, and I want to tell you of one in which a man was concerned who has been very much abused. I refer to Mr. Patten of Chicago. They claim that Mr. Patten ran a corner last winter in Chicago on wheat, and affected the prices all over the United States. I want to tell you of the conditions that existed in the soft-wheat markets at that time. There was an actual scarcity of soft wheat that put the market up where it was. When Chicago, under the Patten deal, closed, it was $1.24, I think; was it not, Mr. Merrill?

Mr. MERRILL. About that, I believe.

Mr. CULVER. Toledo closed for actual bids to feed our people in the State, and through the South, at $1.57 for the cash wheat. We did not have it in the States. We have been running behind on our yield for years, so much so that it is alarming our people all over the State, in Indiana, Michigan, and Ohio; and the same thing would apply to Kentucky and Tennessee.

Mr. SIMS, of Tennessee. I would like to ask a question, if I may.

Mr. LEVER. I understood you to say a moment ago that through the operation of a rule of your board of trade you had practically eliminated the purely gambling transactions?

Mr. CULVER. Well, it may creep in to a certain extent through the big commission houses or the country dealer; but we would know nothing about it. When the grain is sold, in all instances, it contemplates the delivery of the stuff.

Mr. LEVER. But as a matter of fact through this rule you have practically eliminated the purely gambling transactions.

Mr. CULVER. Yes, as far as possible.

Mr. LEVER. Now, I want to ask this question: If you have been able to do that on your board of trade, is it not possible through like rules on other boards of trade, that the same process of elimination of gambling might be had?

Mr. CULVER. I will say this—it is only hearsay on my part, and would make bad evidence—that I know the Chicago board and all the other boards are working diligently to eliminate it and stamp it out.

Mr. LEVER. And you believe that it can be done through the exchanges themselves?

Mr. CULVER. I think it can be done and will be done by the boards themselves.

Mr. LEVER. Now I want to ask you one other question. If these boards of trade refuse upon their own initiative to eliminate these gambling transactions through their own rules, do you think Congress would be going too far in the exercise of its power to enact legislation to eliminate it?

Mr. CULVER. I think if the boards of trade stand in the way of the commerce of this country it is time then for Congress to step in and pass such laws as to wipe them out; but under the existing situation, and the condition that our markets are now in, with the foundation of our finances in the grain business, backed by the fact that we can hedge our stuff and protect our stuff or insure our stuff, I do not believe you could do it without disturbing our country in such a way that it would practically wipe out every exchange and the small dealers of the West.

The CHAIRMAN. Are there any further questions on the part of members of the committee? If not, you may proceed, Mr. Sims.

Mr. SIMS. I understood you to say that all the mills buying or consuming the wheat practically hedge on your market?

Mr. CULVER. Yes, sir.

Mr. SIMS. And I understand that they hedge first by buying the wheat——

Mr. CULVER. They buy the wheat that comes in from the farmers in vast quantities, and the grain merchants in vast quantities consign it to their large elevators.

Mr. SIMS. The first hedge by the soft miller is the purchase?

Mr. CULVER. No; he purchases for cash first, and as fast as he fills up his elevator, he hedges against it.

Mr. SIMS. I know; but the people who furnish the soft wheat are the growers?

Mr. CULVER. Yes, sir.

Mr. SIMS. And in that way the grower and the consumer of the soft wheat are brought together, through the medium of your exchange?

Mr. CULVER. Yes, sir.

Mr. SIMS. And when he has gotten the wheat, and the farmer has delivered it, to whom does he sell the hedge?

Mr. CULVER. To the large investors, the men with money that make a business of coming into the market. For instance, say December wheat is selling at $1——

Mr. MERRILL. Through the medium of the exchange.

Mr. CULVER (continuing). And May wheat is selling at $1.06 or $1.07, which would aggregate that man 6 per cent on his money, as an investment. This man steps in and buys that December and sells the May against it; which insures him his profit, or interest on his money between the two dates.

Mr. SIMS. The miller sells then to the elevator, or the character of people who are simply speculators in options. Is not that true?

Mr. CULVER. You may call it so.

Mr. SIMS. I mean the contracts. I do not mean to be offensive in my language.

Mr. CULVER. You may call it speculation. We call it an investment.

Mr. SIMS. It is an investment in a contract; but not in wheat?

Mr. CULVER. No, sir; when the investment is made in Deceml wheat, he takes the actual wheat.

Mr. SIMS. When December comes around; provided he does ı beforehand sell out the contract.

Mr. CULVER. He carries that receipt, or the receipt for that mı grain, and sells it back as the miller wants it, taking it in on t basis of the May contract.

Mr. SIMS. Now, let me ask you one more question, which I ı confident you can answer; and you have been so candid that I belie you will answer it. Do you think it is possible to operate successfu a hedging market, unless it is also patronized by speculators who tend to make the profit out of the contract between the time of the pı chase and sale and the date of the ultimate execution of the contra

Mr. CULVER. I do not. They are the safety bank of the gr trade.

Mr. SIMS. I think you have answered exactly right. I agree w you.

The CHAIRMAN. Do you wish to ask a question?

Mr. E. T. BROOKS. Yes, sir.

The CHAIRMAN. You may do so.

Mr. BROOKS. The telegram that you read there seemed to want draw a very fine distinction and difference between a bucket sh and an exchange.

Mr. CULVER. Yes.

Mr. BROOKS. Do you agree with the telegram?

Mr. CULVER. Yes, sir; perfectly.

Mr. BROOKS. What I want to ask is, what is the difference, so as the man engaged in it is concerned, between a purely bucket-sh transaction, and calling in a man between the bucket-shop man a the man that is the customer, and calling him a broker, and payi him a commission for holding the stakes?

Mr. CULVER. One is an organized body of men of commerc honor, and the other—well, I would hate to put in the record wha would like to say with reference to the other class of men. I v modify it, though, and say they are sharks. They have no hon They do not contemplate delivery. They take their money, and th steal all their quotations, and steal their news from the differ markets. You may get a quotation on your board that is right, a you may not. They are the curse of our grain trade to-day. Tl is the difference between the two bodies. One is a legitimate, hon able body of men and the other is not.

Mr. BROOKS. Have any of the customers of the bucket shops, si they have been outlawed in certain States, turned around and beco customers of the exchanges?

Mr. CULVER. Not that I know of. Their contracts would not taken in our markets, if they were.

Mr. MERRILL. He means the patrons.

The CHAIRMAN. The committee will stand adjourned until 2 o'clc this afternoon.

(The committee thereupon, at 12.15 o'clock p. m., took a recess ur 2 o'clock p. m.)

AFTERNOON SESSION.

The committee met at 2 o'clock p. m., Hon. Charles F. Scott (chairman) presiding.

The CHAIRMAN. On account of the fact that a hearing before this committee on another subject is set for to-morrow, it is a matter of a good deal of importance that we should conclude the hearings in relation to the grain exchanges this afternoon, if possible.

Mr. MERRILL. We have only Mr. Cushing and myself to be heard now, Mr. Chairman. Mr. Cushing is a member of the New York Produce Exchange. It is not my purpose to occupy much of your time in my remarks, and therefore the matter of time will rest largely with the committee, and will depend largely on the amount of cross-questioning they desire to do. There are a few subjects which I shall want to call your attention to, as the last speaker for the exchanges. If you are ready to proceed, Mr. Chairman, Mr. Cushing is here.

The CHAIRMAN. We are ready to proceed. My remark was intended only to suggest to the members of the committee as well as to the witnesses that the hearing should be as brief as is consistent with presenting the matter properly.

Mr. MERRILL. The only point is that the morning was taken up in cross-questioning largely, far beyond anything we contemplated, and thereby the committee used up the time rather than ourselves, so that if we should be put in the attitude of not completing our representation, we should wish to be heard briefly on another date, and if possible before I leave the city.

The CHAIRMAN. In order that there may be no doubt about it, I will ask the members of the committee and others to refrain from asking questions until your statements have been made. We will hear from Mr. Cushing now.

TESTIMONY OF MR. EDWARD T. CUSHING, REPRESENTING THE NEW YORK PRODUCE EXCHANGE.

(The witness was sworn by the chairman.)

Mr. CUSHING. Mr. Chairman, all these questions have been so thoroughly thrashed out, all the different phases of hedging and manipulation, that I am not tempted to make any further argument. What I have aimed to do is to file the objections of the New York Produce Exchange to the passage of this bill in a memorandum, as it were, making a positive statement without attempting to bring out any arguments in favor of that statement, which I will leave to the committee; so that, if you will allow me, I will present this statement which I have prepared, and I would suggest that if you allow me to do so you will save time, because you will then have it before you for your consideration.

The CHAIRMAN. We would be very glad to have you do that, Mr. Cushing.

Mr. CUSHING. The enactment of national legislation, which would destroy an established system, in use on the great exchanges engaged in handling the products of agriculture, is a matter of grave importance. If the evidence already submitted by us is in any way defi-

cient and this committee desires further information, the exchan would welcome and assist a special committee in making a m searching personal investigation into every detail of the rules of exchanges and into every detail of their economic function in h dling the crops.

The interests involved are vast and far-reaching, affecting alike producer, the consumer, and our foreign trade.

The present business system of the exchanges is the outgrowth experience and in operation has thus far proved the best syst which intelligent, practical minds have been able to devise.

Existing methods have been fully sustained by decisions of Supreme Court, but if it can be shown that any part of the systen against public policy the exchanges would modify their rules to cc ply with public sentiment.

They have already gone on record at this hearing and now furt express their earnest desire to cooperate with this committee in f mulating any further rules which are dictated by public policy.

I would ask Mr. Merrill if he would allow us to make that statem for all the exchanges.

Mr. Merrill. Certainly.

Mr. Cushing. For personally I only represent the prod exchange.

Mr. Merrill. Yes.

Mr. Cushing. The system is complex. Each part is a necess part of the whole, and the destruction of a part would endanger whole. The crops for many years have been handled under present system, which has the advantage of long experience. Leg lation hastily entered into could easily upset this system with offering anything better in its place, and could completely disorgar vast business interests. There is no lack of organization among grain-producing farmers. If there was any widespread dissatisf tion with the method of handling their products, they would be h to-day. They are not here and, as far as can be learned, are gener content in their present wonderful prosperity.

If by legislation, uncalled for, the vast structure of economi order, in handling the crops, should be upset and a panic precipita in grain, which abundant evidence has been submitted here to sh would be more than likely, could not the farmers of the great gra producing States well say: "We were prosperous and content. did not want much. All we asked for was to be let alone, and would not do so?" Any legislation making transactions in agricultu products for future delivery illegal, or any legislation which wo restrict the dealing in future contracts as now conducted under rules of the great exchanges would strike at the root of the wh system, the principles of which are, by the creation of a free and op market for an article of necessity, in its nature highly speculative, give to the producer and the consumer equal advantages with a m imum cost of handling owing to the distribution of the risk by mea of that open market.

If the aim of legislation were the suppression of bucket shops, wh the transactions are pure gambling, every exchange in the coun would support it, would unite in the formation of a bill to that e and would unite in enforcing the law, but any bill of doubtful int pretation would directly affect the great exchanges, and the memb

would be prevented from handling the crops under present methods until they were protected by a decision of the Supreme Court.

It is absolutely essential for the most economical handling of the grain crops that sales should be made for future delivery and that there should be an active market for such delivery. Every transaction for future delivery on the exchanges carries the seller's obligation to deliver the property and the buyer's obligation to receive and pay for it. Failure to do either constitutes a default which suspends a member until he fulfills his obligation. Settlement by offset is allowed by exchange rulės and is upheld both as legal and expedient by a decision of the Supreme Court rendered May 8, 1905.

The main movement of grain is from the farmer to the country elevator or miller. From the country elevator to the terminal cities, where the exchanges and the great elevator systems are located, and from the terminal cities to eastern and southern millers, distributers, and exporters. Somė grain is moved directly East from country stations, and some direct export business is done by the interior terminals, but the main movements is as stated. By the open markets of the exchanges, each one in the line, from the farmer to the consumer, knows at any hour of a business day at what price he can buy or sell, all prices being based on the exchange price for delivery during the future month in which the dealings are then most active. That price is made by consensus of public opinion of value focused on the exchanges. The opinion of value is formed by general information of conditions present and prospective.

The exchanges spend large sums collecting this information, and gratuitously, through their members and through the press, distribute it broadcast, the small dealer and the capitalist standing on the same ground. The best information available is not private information, but public information from the exchanges.

The system of hedging has been so fully explained by the previous testimony that any further explanations would be superfluous.

If grain moved with regularity, no faster than it was wanted, and as fast as it was wanted, hedging would not be necessary, but it does not. At times the movement is far beyond the demand resulting in large accumulations. At other times the movement does not equal the demand and the previous accumulation is drawn on. It is here that the speculator comes in and performs a legitimate economic function in carrying property over times of plethora and supplying it in times of want.

It is the speculator who largely takes the dealer's hedges, and again enables him to buy them in when he makes sales for shipment. Without the speculator, the broad, active market which we now have and which is necessary for the economical handling of the crops would not exist. The speculator, ever ready to buy or sell, prevents violent, abrupt changes. He anticipates demand and supply and works between. He distributes profits, losses, and risks. He is a leveler, in that by his activity he enables the small dealer to hedge, and places him on a level with the large capitalist. He is a useful and necessary part of the whole.

Hedging transactions are obviously so legitimate and so necessary in the handling of the crops that no doubt legislation would provide for them, but, and here is the point as to speculation, if speculation

was restricted, the transactions made legal would be impossible to execute, for there would be no market. There is where your speculator comes in. A broad active market with fractional fluctuations between trades is essential to hedge on. The speculator creates and maintains that kind of a market. Without him no market moving with any degree of regularity would be possible.

If it were desirable to permit so-called legitimate transactions and prohibit speculative, the separation would be impossible. Transactions, legitimate or speculative, would be defined by intent. Varying circumstances so often change the intent that no one could define where one began and the other ended.

Exchange transactions are often defined as legitimate or speculative, implying that the speculative transactions are not legitimate. Every transaction recognized by the rules of the exchanges is legitimate. The hedging transactions are entered into by conservative merchants who want to avoid speculation. There are other transactions, and a vast number of them, which are speculative. They are not as conservative as the hedging transactions, but they are just as legitimate and are just as necessary a part of the whole, in that they maintain the equipoise of the market and prevent violent; abrupt changes.

The worst form which speculation can assume is an actual or attempted corner of the market. It ruins legitimate business, and public sentiment on the exchanges is against it. Every exchange should have a rule making a close corner impossible. No rule can be made limiting the amount of grain an operator can buy, and his purchases, if large enough, may under favoring conditions create a cornered condition of the market, but a rule can be made to prevent the corner from becoming operative. Such a rule has been in operation on the New York Produce Exchange for many years and has proved a complete success. We have such a rule. The farmer can generally be relied on to break any attempted corner. He is the real price maker, and either by the free delivery of his product or by withholding it can ruin the manipulator. Legitimate speculation avoids manipulation. If it were possible to prevent speculation by legislative act it would not be wise to do so; but, if legislation could prevent manipulation it would be most desirable.

Futures are dealt in largely in the open market on the exchanges of Liverpool, Berlin, Budapest, and Paris and no attempt is made there to restrict speculative transactions. Liverpool a few years ago recognized its system and largely adopted American methods as the best in existence. Since then its trade has increased enormously and is now world-wide.

Now, Mr. Messmore spoke of this Prussian agrarian law that was passed, and said there must be some difficulty about it. I have mentioned it here, and I will tell you later where my authority came from. I do not know what technical points there may be about it.

We have a precedent of the disastrous effect of legislation which abolished trading in futures in the experience of Prussia. In 1896 the agrarian majority passed a law prohibiting transactions in the products of agriculture for future delivery on the theory that speculators by short sales depressed values. The law remained in force until 1900, and was then repealed by the same agrarian vote which made it. Under its operation the farmer received less for his product, the consumer paid more for his food, and the great merchants with

large capital made what the farmer and the consumer lost. That is my information.

Mr. LAMB. Where do you get that report?

Mr. CUSHING. If you will pardon me until I get through with my statement I will give you that.

Mr. LAMB. I wish you would.

Mr. CUSHING. I will.

Russia has no system of open future trading and the business there is dominated by a comparatively few large merchants.

Until recently there were no exchanges in the Argentine Republic, which is our greatest competitor in the export of grain. There the business is absolutely controlled by a few large capitalists, who handle it on their own terms at what, from our standard, would be considered an enormous profit taken from the farmer. An exchange has now been established in Buenos Ayres with open future trading, which, no doubt, in time will distribute the business, but it has not yet become important.

Our grain crops could and would be handled if every exchange in the country was wiped out. But how? By large aggregations of capital. None else would take the risk, if there were no means of hedging.

In the modern control by great corporations, termed "trusts," of most of the important industries in this country, the grain business stands almost alone as a great business which is free and open.

This is due to the enforcement of the interstate commerce law and the open market of the exchanges. Without the interstate commerce law there would, without much doubt, be an enormous grain trust to-day made possible by the control of freights. The exchanges alone could not prevent it. The combination of the interstate commerce law and the exchanges now makes the deal so free and open that there is no chance for a monopoly and hence no chance for a trust. If by legislation free and open trading on the exchanges was so restricted that a distribution of the risk by hedges became impossible, there would then be an opportunity for the formation of a grain trust which by its weight of capital could take such risks in a season's play that moderate capital could not live and would gradually be forced out, leaving the trust in a position where it could dominate grain as completely as the American Tobacco Company now dominates tobacco.

The best weapon to use against a trust is that which prevents it. While, singly, neither the interstate commerce law or the exchanges could prevent a grain trust, the combination of the two presents an insurmountable barrier, and national legislation which would impair the effectiveness of the combination seems most unwise.

Laws which debase the common people create despotism under whatever conditions they are enforced. In governments, if the common people are debased, a despotic monarchy is created. In finance, if the common people—that is, those of moderate capital—are debased, a financial despotism is created, the trust.

The CHAIRMAN. You said that you would give us your authority for the statement you made in relation to the German legislation?

Mr. CUSHING. Yes, sir. I have here an editorial article from the Post. However, that is not much good. That gives the history of it. But my information came from Mr. E. Pfarrius, who is engaged as an

exporter and does a great deal of business in Berlin, and he gave me these facts, telling me that he had an intimate personal knowledge of them. At the time that that law was put into effect, as he told me, the Prussian commissioner—what do they call him, secretary of agriculture—was very much disturbed, and he resigned and he came over here and he investigated our methods of doing business (futures), and it was from him that Mr. Pfarrius largely obtained this information, and he gave it to me. There was a question that arose here and a statement that that law had been repealed. What technicality there is in regard to that law I do not know, but I do know this, that there is open trading there in future contracts, because Mr. Pfarrius showed me the contracts for quite a large amount of rye, executed for future delivery, within a relatively short time.

Mr. LAMB. Will you leave that Washington Post editorial with us?

Mr. CUSHING. Oh, that is an old one. That is away back.

Mr. LAMB. Does it state the facts?

Mr. CUSHING. It gives the history of it; it is nothing but a newspaper article.

The CHAIRMAN. Are there any questions?

Mr. LEVER. I would like to ask one or two questions. You said that you had a rule of the New York Produce Exchange which prevented corners?

Mr. CUSHING. That is right.

Mr. LEVER. Will you give us that rule?

Mr. CUSHING. Yes. By the way, I want to file in evidence the rules of the produce exchange, and in support of the rules, not only of their legality but of their expediency, I wish to file this decision of Judge Holmes.

The CHAIRMAN. Very well; leave it with the reporter; and will you be kind enough to read into the record the rule you have referred to?

Mr. CUSHING. This rule reads as follows:

DEFAULTS.

RULE 32, SEC. 1. In case any property contracted for future delivery be not delivered at maturity of contract, the purchaser shall notify, in writing, the committee on grain of the failure to deliver, and the committee on grain shall immediately hold a public call, at which they shall read such notice and buy the grain for account of the parties directing the purchase, but no unreasonable price shall be paid, arising from manipulated or fictitious markets, or unusual detention in transportation.

That is the rule.

The CHAIRMAN. What arrangement is made for determining whether a given price is an unreasonable one?

Mr. CUSHING. Mr. Chairman, we have a meeting, and the grain committee get together and decide among themselves what would be a reasonable price.

The CHAIRMAN. That is a standing committee of your exchange?

Mr. CUSHING. Yes, and a very important one. If any member of the committee is interested in the grain he will not serve. They put on another member. The process is this. Say they have a public call and there is wheat in default. The committee bids $1.20, $1.22, $1.23, $1.24, $1.25. The committee will pay no more, and all settlements have to be made on that. It is a very just rule.

Mr. LEVER. That rule has prevented, I would assume, any attempt at cornering any grain upon your exchange?

Mr. CUSHING. It does not make any difference, let them attempt it all they like, they can not enforce it.

Mr. LEVER. They never have had a corner on your exchange, as a matter of fact?

Mr. CUSHING. There never has been a close corner since this rule went into effect, because this means a man may lie down. I do not think he lies down when he takes advantage of the rule, either; he simply announces: "I think this price is manipulated. I will let it be decided by the grain committee, and I will pay what they say."

Mr. LEVER. I think your rule is a good rule, and the point I am making is, if you on your exchange can prevent a corner and prevent these violent manipulations on the exchange, why do not other exchanges follow your good example?

Mr. CUSHING. I do not know why they do not. Excuse me, I say I do not know why they do not. I do know that there is a movement on foot at present which Mr. Merrill can tell us a great deal more of, in the Chicago Board of Trade, to make a corner rule. I prefer not to testify in regard to the Chicago Board of Trade because Mr. Merrill knows so much more about it than I do that his testimony is better.

Mr. LEVER. What I want is to get you on record as to this proposition. If it should be brought to the minds of this committee that other exchanges are not going to adopt, and have not adopted, such a rule as you have mentioned here, preventing corners and violent manipulations of the products of the farm, do you think it would be unwise for this committee to step in with legislation to prevent that?

Mr. CUSHING. I do not think there is an exchange in the whole United States that would object to making a corner rule.

Mr. COCKS. Do you not think that the exchanges can make such rules as to eliminate a great deal of what is now considered objectionable trading?

Mr. CUSHING. I do not believe they can. Now, I have stated—and Mr. Merrill has given me authority to speak for the other exchanges—that any rules which this committee would suggest the exchanges would be only too glad to take up, if they were in line with public policy; but we must have something which is practical. There are certain forms of speculation which are perfectly legitimate. There are other forms of speculation which we would like to wipe out if we could. I think we would; I do not know; I am only speaking for myself. I would like to wipe them out. You speak of this little outside speculation. Now, if you will allow me to be personal, I do not have any of those accounts. I will not take them. The questions were asked here this morning in regard to $500 being put up. I would not take that account. I want something more. I want to know the man that I work for. It is not his $500; it does not take that long to go. I neither exact nor put up margins in my business. That is a broad statement to make, but it is so.

The CHAIRMAN. What is your business?

Mr. CUSHING. It is just like the rest of them.

The CHAIRMAN. I meant to ask whether you limited your operations to grain, or whether you handled all kinds of produce?

Mr. CUSHING. It is mostly grain.

Mr. SIMS. May I ask him a question, please?

The CHAIRMAN. Yes.

Mr. SIMS. You stated that you thought it legitimate and proper to eliminate manipulation, if it could be done, by law. I want to ask you if it is possible to eliminate manipulation if you do not eliminate the persons or character of business that make possible manipulation?

Mr. CUSHING. I do not know that I exactly understand that. I say if you could eliminate manipulation by law it would be desirable. My opinion is that the exchanges themselves can make laws, rules, against manipulation better than anybody else.

Mr. SIMS. Is it not a fact that manipulation, when it does take place, usually is promoted or caused by the dealing in futures by parties who are not particularly anxious for the spot business, but are doing what they call "playing the market?"

Mr. CUSHING. I do not know. I never ran a corner, so that I can not answer your question.

Mr. SIMS. I am not talking about a corner, but about manipulation of futures; buying, and selling out before the day of delivery arrives.

Mr. CUSHING. I will answer in this way, that Mr. Patten, who has of course attracted a great deal of attention lately, is eminently a merchant, and deals in the actual produce, and that is the reason why he has been so successful.

Mr. SIMS. I am not asking for a particular instance; but the very way that you put it, "if manipulation could be eliminated," of course leaves us to conclude that there is some manipulation. Is not that manipulation, whatever it is, conducted and engineered and brought about by the speculative dealer who deals in contracts, rather than the execution of the contracts by delivering or receiving the product itself?

Mr. CUSHING. Not always. Sometimes it comes about naturally.

Mr. SIMS. Manipulation is a natural product?

Mr. CUSHING. Now, you are talking about the effect of manipulation. I have seen squeezes in some of the hardest places come about naturally. The market just went around that way, naturally.

Mr. SIMS. The market might take a natural course and a man might get squeezed if he was in it; but I am talking about manipulated squeezes. A bear raid is not a corner, is it?

Mr. CUSHING. I never heard of a bear making a corner.

Mr. SIMS. I say a bear raid.

Mr. MERRILL. A bear raid, breaking the market down.

Mr. CUSHING. I never heard of a corner being made by a bear. I have heard of it being made by a bull.

Mr. SIMS. You have heard of bear raids being made and organized, and that is manipulation?

Mr. CUSHING. Yes; it is manipulation. But I think that the exchanges themselves can legislate against exchange manipulation. They can legislate against manipulation becoming operative, as they have done by that rule.

Mr. SIMS. They can, by permitting members after they have contracted to violate their contracts or not to execute them, according to the terms of the contracts.

Mr. CUSHING. Well, when the exchanges make those rules they are doing all they can to prevent manipulation.

Mr. SIMS. There is a rule which permits the exchange to relieve a man from the terms of his own contract if he be the victim of manipulation?

Mr. CUSHING. There is a rule that prevents the manipulator from taking his shirt. That is about what it is.

Mr. SIMS. That is manipulating the market?

Mr. CUSHING. In other words, you get a wheat market which is up to $1.50, we will say, right here, and the committee say "$1.50 is a fair price," and they will not pay any more. If it was not for that rule, there is nothing to prevent that man putting the price up to $5; nothing except the common law. He can not collect.

Mr. SIMS. I think the rule is right, and should be enforced, and I think therefore legislation along that line is also to be encouraged. That is the point that I was making. That is all that I want to ask you.

The CHAIRMAN. Mr. Merrill, before you go on I would like to give a few minutes to Mr. J. Ralph Pickell. Mr. Pickell, as I understand, does not represent any organization, commercial or otherwise, but he is the editor of the National Hay and Grain Reporter, of Chicago, Ill., and I believe the committee would be glad to hear him for a few minutes.

TESTIMONY OF MR. J. RALPH PICKELL, EDITOR OF THE NATIONAL HAY AND GRAIN REPORTER, OF CHICAGO, ILL.

(The witness was sworn by the chairman.)

Mr. PICKELL. Mr. Chairman and gentlemen of the Committee on Agriculture, it is unnecessary for me to state that I am not here as the representative of any particular organization or any grain exchange or any association in this country, but solely at the courteous request of your honorable chairman, who is a personal and cherished friend of mine. Chairman Scott knows that I am opposed to his bill in its present form, and that I base that opposition upon actual experience in the grain business and a personal investigation of the methods of conducting the grain business in the various terminal markets of the United States. It is unnecessary for me to revert to the time when I was in the grain business with my father in Humboldt, Kans., the home of your honorable chairman, further than to say that if we had not been able to hedge our purchases of grain, we could not have paid the constituents of your honorable chairman within 5 to 10 cents a bushel of the prices that we actually paid them; and in this connection I want to emphasize one thought which it seems to me has not been brought out here as emphatically as it should have been. My father was in the stock business in Humboldt, Kans., and in the fall of the year he would purchase his steers. He would buy them in Kansas City, and at the same time he would buy May corn. Now, he never expected to receive a bushel of that grain, and yet he purchased the corn at the same time that he bought the cattle because he knew it would take just about 10,000 bushels of corn to get those steers ready for market next June. That is one phase of the hedging business that seems to me very important in connection with grain exchanges in this country, and one which has not been made as emphatic as I believe it should be.

You asked about the hay business, and it was explained that on account of the baling and the difficulties of transportation, owing to its bulk, it can not be transported quickly, as you understand, it would be practically impossible to trade in futures in hay. But on the

10th day of January, 1910, I heard the president of the National Hay Association, Mr. H. W. Robinson, of Green Spring, Ohio, say before a meeting in Columbus, Ohio, of that association that it had been the ambition of his life to get hay futures traded in in the terminal markets. I merely mention that to show you that that is the sentiment. Wichita, Kans., recently adopted the system of future trading. Mr. McCullough, president of the Wichita Board of Trade, told me two weeks ago that if the Scott antioption bill became a law it would absolutely throttle the grain business in that thriving little city. Wichita needs that grain business for the same reason that Kansas City needs it, as was explained to you by Mr. George H. Davis.

I have reason to believe that the bucket shops in this country are behind this bill. I believe that those illegitimate institutions, those bloodsuckers of the curb, are behind this bill more or less. Now, these things come to me in my office. I do not know absolutely that there are two—that is, I have not proved that there are two—bucket shops behind this bill, but I know beyond the question of a doubt that there is one bucket shop behind this bill.

The Chairman. Just one minute. In just what sense did you use the words "behind the bill?"

Mr. Pickell. I will explain that right now, Mr. Scott. I will explain to you just exactly what I mean. Here is a letter from the president of one of the largest bucket shops in the State of Kansas, which was written to the president of the Kansas Grain Dealers' Association, which association held a meeting in Kansas City two weeks ago, and in this letter, which may become a part of the record if it is so desired, the president of that illegal bucket shop indorses the stand which the president of the Kansas Grain Dealers' Association took against bucket shops in his address to the association, and goes further to ask that President Cox of the Kansas Grain Dealers' Association use his influence in getting the Scott antioption bill enacted into law. This is the letter, and it may become a part of the record if you so desire.

Now, what I mean to say is this: The bucket shops of this country either see their doom, they either read the handwriting on the wall, because 10 States in this Union have already passed laws to put the bucket shops out of business——

Mr. Lamb. How about Kansas?

Mr. Pickell. They have a law which has just been recently passed, and I understand that the state's attorney is just beginning work upon it. What I started to say is this: The bucket shops of this country understand that they are about to be put out of business by the States, and desire to pull the legitimate exchanges down with them, or else they understand that if the Scott antioption bill becomes a law there will still be a certain amount of trading. For instance, Chicago will always do a certain amount of speculating, even if this bill becomes a law. So that these bucket shops see there would be an opportunity for them to spring up in the States and thrive upon the suckers who live around them, and their business would not be molested if the Scott bill went into effect; and that is what I meant when I said that I thought the bucket shops would be glad if this bill was enacted. You understand my idea?

The Chairman. Yes, I understand, and I thought I understood your first expression; but it was rather ambiguous; because when you say

that certain influences are behind the bill the general interpretation of that is that they have suggested the bill or are promoting it.

Mr. PICKELL. Oh, no, sir; not at all.

The CHAIRMAN. That is quite a different statement from the statement that they are in sympathy with the bill.

Mr. PICKELL. No; they see that it can promote their own aggrandizement, as I interpret it, if this bill becomes a law; not that they have anything to do with it, which never suggested itself to my mind. All of you gentlemen here must be getting letters from over the country asking that such a bill be passed, and when I secured this letter by accident in Kansas City two weeks ago it suggested to me immediately that a part of the cry was coming from the bucket-shop people.

Mr. LAMB. For one, I have never received a letter asking that such a bill be passed.

Mr. PICKELL. Is that so?

Mr. LAMB. That is so.

The CHAIRMAN. Now, will you read the letter?

Mr. PICKELL. The letter is as follows:

THE FARMERS TERMINAL GRAIN COMPANY,
Kansas City, Kans., February 9, 1910.

Mr. R. E. COX, *President Kansas Grain Dealers' Association,*
Kansas City, Mo.

DEAR SIR: We want to applaud your efforts to stamp out bucket shops and speculation in farm products and foodstuffs, and we are highly in accord and sympathy with you, and further ask that you join with us in assisting Congressman Scott to pass his antioption bill now pending before Congress, prohibiting gambling in farm products and foodstuffs on boards of trade, and ask that you pass a resolution indorsing Congressman Scott's bill.

Yours, very truly,
THE FARMERS TERMINAL GRAIN COMPANY,
By S. H. MCCULLOUGH, *President.*

Mr. SIMS. Where is that from?

Mr. PICKELL. From Kansas City, Kans.

The CHAIRMAN. Did you refer to that company as a bucket shop organization?

Mr. PICKELL. Yes, absolutely; absolutely. Before closing, the thought that I had in my mind was this, that after an investigation of the various methods of conducting business in the terminal markets, it seems to me to revert back to Adam Smith, who wrote his work on political economy one hundred and thirty-five years ago, when he said:

> The natural price, therefore, is the central price toward which the prices of all commodities are continually gravitating.

To my mind, gentlemen, while there are evils, ghastly evils sometimes, connected with the board of trade, it seems to me that the wheat pit and the corn pit and the oat pit represent the twentieth century gravitating of grain prices toward the central price. I thank you for your courtesy.

Mr. SIMS. So far as the South is concerned, the very people who put the bucket shops out of existence are the people who are behind this bill here.

Mr. PICKELL. I am glad to know it.

Mr. SIMS. I am glad to inform you, because you ought to know it.

Mr. BURLESON. You admit the evil of bucket shop gambling?

Mr. PICKELL. Absolutely, yes, sir.

Mr. BURLESON. The proprietor of this bucket shop, or alleged bucket shop, whose letter you have just read, confessed the evils of bucket-shop gambling. You say he admitted the evil of it and said that it ought to be wiped out?

Mr. PICKELL. Well, sir; there is his letter.

Mr. BURLESON. Well, I understood you to say that he approved of the closing of the bucket shops himself.

Mr. PICKELL. That, I believe, is the close of the letter.

Mr. BURLESON. Let me ask you this. Did you ever know the price of a farm product to be affected by the price in the bucket shop?

Mr. PICKELL. No.

Mr. BURLESON. Consequently, the only people who are injured by the bucket-shop transactions are the people who buck in the bucket shop; is not that true?

Mr. PICKELL. Unless the bucket-shop operator happens to get the worst of it himself; then he would be injured, of course; naturally so.

Mr. BURLESON. It is the man who bucks the bucket shop that usually gets the worst of it?

Mr. PICKELL. That is true; yes, sir.

Mr. BURLESON. It is a fact that the operation of gambling that he alluded to in his letter is the gambling on the boards of trade and exchanges?

Mr. PICKELL. Yes.

Mr. BURLESON. It is a fact that the gambling on boards of trade and exchanges frequently affects the market price of farm products; is not that true?

Mr. PICKELL. I am not thoroughly convinced as to what you mean by "gambling."

Mr. BURLESON. You have brought that letter here. The writer of that letter alludes to gambling on the boards of trade and exchanges.

Mr. PICKELL. Yes.

Mr. BURLESON. I mean those transactions where the buyer does not intend to receive or the seller intend to deliver.

Mr. PICKELL. I am not thoroughly convinced that there are any transactions of that kind.

Mr. BURLESON. You are not convinced that there are any transactions of that kind?

Mr. PICKELL. No, sir; and I have made it a study.

Mr. BURLESON. Well, if there are transactions of that kind, are you in favor of them?

Mr. PICKELL. If you refer to bucket-shop gambling, I am against it, and any man——

Mr. BURLESON. Mr. Produce Editor, I mean transactions upon the boards of trade.

Mr. PICKELL. Yes.

Mr. BURLESON. And cotton exchanges.

Mr. PICKELL. Yes.

Mr. BURLESON. Where there is no intention on the part of the seller to deliver or on the part of the buyer to receive.

Mr. PICKELL. Yes.

Mr. BURLESON. If there are transactions of that kind on the exchanges, are you opposed to them?

Mr. MERRILL. You are if it is gambling, are you not?

Mr. BURLESON. Hold up; he is under oath. Let him answer for himself. Mr. Merrill is not in charge of his conscience.
Mr. MERRILL. I only wanted to facilitate the reply.
Mr. BURLESON. Oh, yes.
Mr. PICKELL. Will you ask that last question over again?
Mr. BURLESON. If there are transactions upon the boards of trade and exchanges of the country where the buyer has no intention of receiving and the seller has no intention of delivering, are you opposed to transactions of that kind?
Mr. PICKELL. If there are——
Mr. BURLESON. Yes.
Mr. PICKELL. Transactions of that kind; yes, sir, I am opposed to them.
Mr. BURLESON. And if it can be reached by legislation, they ought to be prohibited?
Mr. PICKELL. Where the seller has no intention of delivering?
Mr. BURLESON. That is right.
Mr. PICKELL. Or the buyer of receiving?
Mr. BURLESON. Yes.
Mr. PICKELL. That is right, yes.
Mr. BURLESON. Now, would you be very much surprised if I told you that the Scott bill, which you say is backed by the bucket shops, confines itself exclusively to the class of transactions that you say you are opposed to and which ought to be prohibited?
Mr. PICKELL. I would say, sir, that I would not only be surprised, but I would say that I do not believe you have a correct comprehension of the bill.
Mr. BURLESON. Of the bill?
Mr. PICKELL. Yes.
Mr. BURLESON. That I did not understand the bill?
Mr. PICKELL. Yes.
Mr. BURLESON. Now you are excused, so far as I am concerned.

TESTIMONY OF MR. JOHN C. F. MERRILL, VICE-PRESIDENT OF THE CHICAGO BOARD OF TRADE.

(The witness was duly sworn by the chairman.)
The CHAIRMAN. Mr. Merrill, in order that there may be no doubt that you will be able to conclude the statement you wish to make, I will ask the members of the committee to refrain from questioning you until you have concluded.
Mr. MERRILL. Yes; I will be as brief as possible, because I realize that the whole subject has been pretty well covered.
As you gentlemen all know, this hearing is being conducted by the Council of Grain Exchanges of North America; it was so announced to you at the opening of it. That council comprises all the important exchanges of the country, and they have their delegates before you. At the opening I recall that I stated that we had subdivided the subject, and that speculation was one of those subdivisions. In spite of my protest the council placed upon me the presentation of that subject to you, and I realize, gentlemen, that it may be an uphill proposition, and I shall not dwell upon it at great length, in fact scarcely any time will be consumed by it, when I will be as rapid as possible in getting through with the general survey.

Speculation has been defined by the German economist, Cohn, as "the struggle of well-equipped intelligence with the rough power of chance." I think that is as good a definition as I have ever heard. Adam Smith, to whom Mr. Pickell referred, and with whose Wealth of Nations I presume all of you gentlemen are familiar, since it came off the press so long ago as 1776 and has remained a high authority ever since, says:

In the progress of society, philosophy or speculation becomes, like every other employment, the principal or sole trade and occupation of a particular class of citizens.

In our day they are men, generally speaking, of capital. Mr. Smith also says:

The establishment of any new manufacture, of any new practice in agriculture, is always a speculation from which the pojector promises himself extraordinary profits.

It would appear, therefore, gentlemen, that the world's best thinkers recognize the presence of speculation in all the world, wherever there is human activity. The consideration of the subject of speculation is attracting a great deal of attention now because, in the natural trend of things, the over-taking of production by consumption is very sharply drawing the line. Let me make that a little clearer. Fifteen years ago, approximately speaking—you may take a period of five years around that time—the production of corn in the United States was 1,500 millions of bushels. So thoroughly did that 1,500 millions of bushels satisfy all of the domestic and foreign demand that the price declined in Chicago, for delivery in May, to a mere fraction below 20 cents. There were some hundreds of miles of corn cribs in the aggregate in the Mississippi Valley filled with ear corn, some of it three years old, much of it two years old, and a good deal of it of the last preceding crop. The weight of that enormous quantity of grain, largely hedged in the Chicago market—because this corn was cribbed by capitalists—depressed the price, of course, as supply and demand result. To-day there is no stock of last crop of corn on hand, nor was there last year.

I received an order in December of last year to buy 20,000 bushels of old corn during the month, for a yeast manufacturing concern. I could buy it of any color—white, yellow, or mixed, No. 2 or choice No. 3—in my judgment. I succeeded in buying 6,000 bushels of it in the Mississippi Valley, in the market district of Chicago, during thirty days. During the December before I had an identical order, and the result was that I got that year about 3,000 bushels. I state these facts to show you gentlemen how completely consumption has overtaken production, and it is startling because of its effect on many other things that you gentlemen will have to legislate upon. Not only has that surplus disappeared, but we have increased our production from that 1,500,000,000 to 2,940,000,000 of bushels in 1907, approximately 2,700,000,000 bushels in 1908 and approximately 2,800,000,000 bushels in 1909. And yet the increased production has been consumed, and far less of it has been exported. Years ago corn was looked upon as a food fit for hogs, and as a fuel. A great deal of it was consumed as fuel. But now, according to a list I saw, which I am sorry I have not with me, compiled by the Iowa Agricultural College at Ames, there were 114 uses that corn is devoted to.

Now, you can readily see that in matters of speculation or hedging, that great quantity of corn created a condition which made it impossi-

ble to corner the market, or in fact to manipulate it much. But now the consumption of grain in this country has so far overtaken the production that very much less trading affects the market and much more quickly, and it is because we have reached that stage of acuteness that in the past few years these conditions which you gentlemen deprecate, which we all deprecate, have presented themselves, and it is a matter of passing moment, I suppose, that the great market of Chicago will go the way that all the exchanges east of it have gone, and be one of much decreased activity, because hedging trades and speculation always center around the places where the raw product reaches its initial market; and just as westward the march of empire takes its way, just as that empire moves forward, with the filling up of the country, so does the center of accumulation and disposition of large stocks of grain move, and without that accumulation speculation can not long continue. You can readily understand that if a board of trade was on an island 1,000 miles away from anywhere, and they had only 1,000 members, it would be dog eat dog, and it would be soon over with. There would not be anything behind it.

You have frequently been referred—I have noticed, and I suppose you are well familiar with it without reference—to this decision of the Supreme Court. I am not going to read it because of its value as a decision so much as because Justice Holmes—and I marvel at it—so thoroughly understands, or understood when he wrote that decision, the situation, and made such a splendid analysis of it that it is very creditable to him, and to that great court, that it could so perfectly understand so complex matter before rendering its decision. This is rather short, and I want to read it here because it sets forth my ideas in better form than I can give them to you myself, and because you will pay more attention to it than you would anything that I might say. I read from this decision, which was rendered May 8, 1905:

The Supreme Court of the United States said: "The Chicago Board of Trade was incorporated by special charter of the State of Illinois on February 18, 1859. The charter incorporated an existing board of trade, and there seems to be no reason to doubt that it then managed its Chamber of Commerce substantially as it has since. The main feature of its management is that it maintains an exchange hall for the exclusive use of its members, which now has become one of the great grain and provision markets of the world. Three separated portions of this hall are known, respectively, as the wheat pit, the corn pit, and the provision pit. In these pits the members make sales and purchases exclusively for future delivery, the members dealing always as principals between themselves, and being bound practically, at least, as principals to those who employ them when they are not acting on their own behalf.

The quotation of the prices continuously offered and accepted in these pits during business hours are collected at the board of trade's expense and handed to the telegraph companies, which have their instruments close at hand, and by the latter are sent to a great number of offices. The telegraph companies all receive the quotations under a contract *not to furnish them to any bucket shop or place where they are used as a basis for bets or illegal contracts.*

It appears that in not less than three-quarters of the transactions in the grain pit there is no physical handing over of any grain, but that there is a settlement, either by the direct method, so called, or by what is known as ringing up. The direct method consists simply in setting off contracts to buy wheat of a certain amount at a certain time, against contracts to sell a like amount at the same time, and paying the difference of price in cash at the end of the business day. The ring settlement is reached by a comparison of books among the clerks of the members buying and selling in the pit, and picking out a series of transactions which begins and ends with dealings which can be set

against each other by eliminating those between—as, if A has sold to B 5,000 bushels of May wheat, and B has sold the same amount to C, and C to D, and D to A. Substituting D for B by notation, A's sale can be set against his purchase, on simply paying the difference in price.

This chamber of commerce is, in the first place, a great market, where, through its 1,800 members, is transacted a large part of the grain and provision business of the world. Of course, in a modern market contracts are not confined to sales for immediate delivery. *People will endeavor to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices, and providing for periods of want.* It is true that the success of the strong induces imitation by the weak and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn. But legislatures and courts generally *have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such coarse attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being are harmful and vain.* This court has upheld sales of stock for future delivery and the substitution of parties provided for by the rules of the Chicago Stock Exchange. Clews *v.* Jamieson, 182 U. S., 461.

When the Chicago Board of Trade was incorporated we can not doubt that it was expected to afford a market for future as well as present sales, with the necessary incidents of such a market, and while the State of Illinois allows that charter to stand, we can not believe that the pits, merely as places where future sales are made, are forbidden by the law. But again, the contracts made in the pits are contracts between the members. We must suppose that from the beginning, as now, if a member had a contract with another member to buy a certain amount of wheat at a certain time and another to sell the same amount at the same time, it would be deemed unnecessary to exchange warehouse receipts. We must suppose that then, as now, a settlement would be made by the payment of differences, after the analogy of a clearing house. This naturally would take place no less that the contracts were made in good faith for actual delivery, since the result of actual delivery would be to leave the parties just where they were before. *Set-off has all the effects of delivery.* The ring settlement is simply a more complex case of the same kind. These settlements would be frequent, as the number of persons buying and selling was comparatively small.

The fact that contracts are satisfied in this way by set-off and the payment of differences detracts in no degree from the good faith of the parties, and if the parties know when they make such contracts that they are very likely to have a chance to satisfy them in that way and intend to make use of it, that fact is perfectly consistent with a serious business purpose and an intent that the contract shall mean what it says. There is no doubt, from the rules of the board of trade or the evidence, that the contracts made between the members are intended and supposed to be binding in manner and form as they are made. There is no doubt that a large part of those contracts is made for serious business purposes. Hedging, for instance, as it is called, is a means by which collectors and exporters of grain or other products, and manufacturers who make contracts in advance for the sale of their goods, secure themselves against the fluctuations of the market by counter contracts for the purchase or sale, as the case may be, of an equal quantity of the product, or of the material of manufacture. It is none the less a serious business contract for a legitimate and useful purpose that it may be offset before the time of delivery in case delivery should not be needed or desired.

Purchases made with the understanding that the contract will be settled by paying the difference between the contract and the market price at a certain time (Embrey *v.* Jemison, 131 U. S., 336; Weare Commission Co. *v.* People, 209 Ill., 528), stand on different ground from purchases made merely with the expectation that they will be satisfied by set-off. If the latter might fall within the statute of Illinois, we would not be the first to decide that they did when the object was self-protection in business and not merely a speculation entered into for its own sake. It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in this country are to be regarded as mere wagers or as "pretended" buying or selling, without any intention of receiving and paying for the property bought, or of delivering the property sold, within the meaning of the Illinois act. Such a view seems to us hardly consistent with the admitted fact that the quotations of prices from the market are of the utmost importance to the business world, and not least to the farmers; so important indeed, that it is argued here and has been held in Illinois that the quotations are clothed with a public use. It seems to us hardly consistent with the obvious purposes of the plaintiff's charter, or indeed with

the words of the statute invoked. The sales in the pits are not pretended, but, as we have said, are meant and supposed to be binding. *A set-off is in legal effect a delivery.* We speak only of the contracts made in the pits, because in them the members are principals. The subsidiary rights of their employers where the members buy as brokers we think it unnecessary to discuss.

In the view which we take the proportion of the dealings in the pit which are settled in this way throws no light on the question of the proportion of serious dealings for legitimate business purposes to those which fairly can be classed as wagers or pretended contracts. No more does the fact that the contracts thus disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set off sufficiently explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money, many of which in like manner are set off in clearing houses without anyone dreaming that they are not paid, and for the rest of which the same money suffices in succession, the less being needed the more rapid the circulation is.

Gentlemen, you probably are all well aware that in 1888 the United States Government appointed a commission to investigate certain things, called the Industrial Commission. That commission was composed as follows:

Senator James H. Kyle, chairman; Senator Boies Penrose, Senator Stephen R. Mallory, Senator John W. Daniel, Senator Thomas R. Bard, Representative John J. Gardner, Representative William Lorimer, Representative L. F. Livingston, Representative John C. Bell, Representative Theobald Otjen, Mr. Andrew L. Harris, Mr. John M. Farquhar, Mr. Eugene D. Conger, Mr. Thomas W. Phillips, Mr. Charles J. Harris, Mr. John L. Kennedy, Mr. Albert Clarke, Mr. D. A. Tompkins, Mr. Charles H. Litchman. E. Dana Durand, secretary.

As I say, they conducted this inquiry covering a period of something over two years. They were in Chicago at our board of trade, as I recall it now, about two weeks. A good many of our members were called before that commission and gave all the testimony that we were competent in any way to give. The chairman of the commission was Senator James H. Kyle, and I wish just to present two or three things from his report, which I would like to put in the record. This is from his report on the distribution of farm products:

Why has commercial distribution in the United States become so largely identified with the speculative class of trading capitalists? The answer is that it has been found best for the producing and consuming interests of the community that the risks of distribution should be localized in a separate commercial class whose members are in a position to inform themselves as to all the factors—past, present, and prospective—affecting the future course of prices. If the risks of distribution fell upon the farmer, it would increase materially the risks of capital required and thus raise the rate of interest he should have to pay as producer, because increased risks always raise the rate of interest. This would increase the cost of production and would consequently tend to reduce consumption by rise of price to consumers. Such rise of price beyond a certain point would reduce the volume of trade. If consumers assumed the risk of distribution there would be very inadequate provision for the future. Irregular supply of subsistence soon breaks down the economic efficiency of consumers, besides impairing their regular consuming capacity as customers of the producer. Hence the community, producers, traders, and consumers all suffer together.

These two kinds of services are peculiar to speculative distribution—the service of assuming the risks that arise from changes in the relation of demand and supply, and the service of giving the right direction to the commodities available for consumption. Even in famine-stricken India, the Government regards speculative distribution of supplies as on the whole far more efficient than any bureaucratic distribution could be. Without this, modern markets would be deprived of a very great share of their efficiency in serving producers and consumers. In fact, those who have thought out the subject most thoroughly have found in this directive work of speculation the chief justification for its existence. Where government has assumed even part of the risk of crop distribution, as in Russia, piles of wheat rot in one section, while people starve in the next.

(There are no grain speculative markets in Russia.)

Professor Emery gives it as his opinion that organized speculation is found to be the means of making the needed protection, and it will also prove itself the chief directive influence in the economic field in which it prevails.

Speculative dealings in farm products have then three things to consider: Concentration and distribution of surplus crops at right times and places, and the formation of a business judgment based on a ratio of the visible supply to the world's grain and cotton, for example, to the customary demand of its consuming communities. The scope of this task of forming a judgment upon world-wide conditions, and forming it accurately enough to stake millions of capital upon it, is perhaps the heaviest hazard on our whole modern economic organization of society. But some class of investors must do it, or the consumers must pay a higher price for their produce, and producers must be content to enter the market with fewer competitors, ready to buy and carry their surplus. Producers and consumers together, without the speculative mechanism at work, would have to divide the risks of distribution between them. Neither of these interests is prepared to do this. Sound commercial policy is the best served by a rational division of distributive labor, in which economic freedom and economic responsibility are equally respected. The economic services of speculative agencies engaged in distributing farm products are threefold:

1. They localize industrial risks among a commercial class whose special function is to distribute surplus supplies over deficit times and places in such a way as to lessen the uncertainty of producers and consumers.
2. They relieve producers and consumers from carrying a whole year's stock, enabling the farmer to convert his crop promptly into cash capital and the latter to supply himself as his periodical needs may require without enhancing prices beyond the original rate of risks and returns of such capital investments.
3. Competition of speculative traders tends more than any other force to reduce profits of these agencies to a minimum per unit of commodity handled. Released from their economic functions, it is to their interests to seek to reduce the risks of distribution to a minimum. By expert acquaintance with the conditions that involve risks, the hazardous elements are gradually limited, if not entirely eliminated.

That is signed by the chairman, Senator Kyle, and it is submitted as of date 1900. When a later bill bearing upon this same subject was before Congress Senator Platt, of Connecticut, said:

The farmers complain that dealers in options and futures improperly, illegally, if you please, immorally, fix the price of their products. I do not believe it. * * *

But who is to fix the price of the productions of the farmers if this bill passes? Have they thought of that? Do they not understand, with the present power of concentration of capital, with the present haste to make riches, that the price will still be fixed by some one else and not by themselves? Has it ever entered their minds that the prices hereafter prevailing for those agricultural products will be fixed in the matter of grain by the millers and the elevator men and the commission merchants? Do the farmers expect that the price will be fixed by the millers and the elevator men and the railroad and commission men any more to their advantage than they now suppose it to be fixed by the men who deal in future contracts?

That is from what was said by Senator Orville H. Platt, of Connecticut.

I have here a speech of the then Senator Edward D. White on the same subject. I am not going to read it. I thought I heard some one say that it had been filed by the cotton people.

Mr. BURLESON. Yes; that has been filed.

Mr. MERRILL. Yes. The part of it which I wish the record to show that I referred to is quite an exhaustive theory by Professor Jevons, which Senator White incorporated into his address, he having sent it to the chair to be read at the time he made his address. Anyone wanting to see it will of course know where it is to be found.

A good deal has been said about bucket shops, and I would like the record to show a good definition of a bucket shop. The one I give you first is from the Century Dictionary:

A bucket shop is an establishment conducted nominally for the transaction of a stock exchange business, or a business of similar character, but really for the registration of

bets or wagers, usually for small amounts, on the rise or fall of the prices of stock, grain, oil, etc., there being no transfer or delivery of the stocks or commodities nominally dealt in.

The definition as given in the Standard Dictionary is as follows:

An office where people may gamble in fractional lots of stock, grain, or other things which are bought and sold on the exchanges. The bucket shop uses the terms and outward forms of the exchanges, but differs from exchanges in that there is no delivery, and no expectation or intention to deliver or receive securities or commodities said to be sold or purchased.

There is another short statement here, I can not give you the author, but I will just introduce it as a quotation:

A "bucket shop" is a place wherein are posted, as they occur, the fluctuating prices of grains, provisions, and stocks in the great exchanges at the leading commercial centers. Under the guise of a contract to buy or sell one of these commodities, the proprietor of the "shop" will wager any comer that the price will advance before it declines, or will decline before it advances to a certain named point. Neither party "buys" anything. Neither party "sells" anything. Neither party intends either to buy or sell anything. The decision of the wager hangs upon a quotation which is made by men engaged in actual trade perhaps five hundred or a thousand miles distant, with which the bettors have nothing to do and upon which their wager exerted no influence.

The supreme court of Indiana, in the case of Pearce et al. *v.* Bill (149 Ind., 136), speaking through Judge Jordan, said:

The mischief and evil consequences resulting to the State from the operations of the bucket shop are almost beyond computation. It assumes an air of legality and respectability and insidiously ensnares many innocent victims before the public learn of their danger. It ought to be outlawed by statute, as its existence is a menace to society, and its operations immoral, contrary to public policy, and illegal.

Another decision of the supreme court of the State of Indiana in case of the Western Union Telegraph Co. *v.* the Hammond Elevator Co., contains in part the following:

We have no statute denouncing optional gambling as a crime, but contracts for the purchase and sale of commodities not to be delivered, but only to be performed by advancing and paying differences, are void at common law. The business or operation of the bucket shop have been the source of much evil, and the question of prohibiting such transactions or business, as it is generally conducted, merits the consideration of the legislature.

From the latter it will be seen that the supreme court advises the legislature to enact such legislation as will do away with bucket shops, and it would seem the legislature of no State could ask more than the recommendation of its supreme court.

I am hurrying along as fast as I can, Mr. Chairman. For the moment, anyway, until you take up questioning, I will leave the discussion, in a general way, of these questions, and I want to refer particularly, so that it may be of record, to some of the practices of my own exchange, the Chicago Board of Trade. Take first the question of penalty on off grades when delivered. We have no off grade of wheat deliverable under any penalty. The grades of wheat deliverable in our market have been explained to you by Mr. Fitch. The corn market is slightly different in that No. 3 corn may be delivered at 5 cents penalty, the intention being to very fully protect the buyer, because there is never so much market difference as that, and the board, desiring to make it as difficult as possible for anyone to manipulate the market, by vote of its membership passed that rule. In the operation of that rule you will readily see that if the seller can find it to his better interest to sell the No. 3 corn in

the open market and buy a like quantity of contract corn he may do so, and therein lies his protection; but if he is caught with a large quantity of No. 3 corn in a year perhaps when there is little contract corn then his maximum loss by being unable to comply with his contract would be covered in that way. To show you how possibly that might be the case I have a couple of market reports which my firm, in writing to me since I have been here, inclosed in their letters, not with any thought of their being offered here, but simply to acquaint me with the state of the market, and here is a statement of daily inspection of grain. Under date of February 16, the total receipts of corn inspected that day were 467 cars, of which there was but 1 car of contract corn, the other 466 cars all being below contract corn, and of course a large part of that corn had been hedged when it was bought from the farmers and sold for May or some other delivery in Chicago; but of course on the arrival of the corn the hedge was covered in the open market and the corn was sold on sample to driers or consumers for such purposes as they might buy it for.

Mr. HAWLEY. Will that 466 cars of corn be made contract corn by drying?

Mr. MERRILL. Some of it only. I am chairman of the grain committee, and it is a very active committee, having charge of all the cash grain interests of that board, and under the uniform rule now adopted by nearly all the great corn-producing States there is a rule of inspection. Inspection in our State is under a state law enacted thirty-nine years ago. It is a very perfect system, built up under the care of the State. The No. 2 corn may have a moisture content of 16 per cent maximum, and we have found that corn which has a maximum moisture content of above 18 per cent does not lend itself well to drying, because after drying it breaks to pieces badly; having been so much swollen up and enlarged with the moisture, which when rapidly taken out of it leaves it in such a condition that the ordinary running through spouts and dropping into cars breaks it, and it becomes floury; and it makes the grain dirty, which prevents it grading No. 2 and carries it into a lower grade.

The report I have here is of the 19th instant, on which day the receipts of corn were 344 cars, of which again only 1 car was contract corn. The crop of 1908 was of fine quality and a large percentage of it graded No. 2, and there was so little No. 3 in it that it sold all year within ¼ to ½ cent of the No. 2; but of course when the quantity of it is so great that it can not be graded, or dried into No. 2 corn, it of necessity raises this question of the possible delivery of No. 3. Under such conditions the discount would be more because of the greater quantity of No. 3; and I would say, further, that whenever the off grade is delivered the warehouse receipts can not be mixed in with other receipts covering No. 2 corn. On a sale for future delivery of 5,000 bushels we could not deliver 2,000 bushels of No. 2 and 3,000 bushels of No. 3; we would have to deliver the whole 5,000 bushels of No. 3, so that a miller getting it would not get a mixed lot.

With respect to the banker's position in hedging, I heard D. R. Forgan, of the National City Bank of Chicago (deposits $22,000,000). state at a large meeting of the Association of Commerce and Board of Trade of our city, that he would not loan money to anyone on grain;

that is, would not loan it at the usual percentage advance, which is nearly the market value, except to an Armour that was not hedged.

There was a question asked by some gentleman of the committee the other day about the increased amount of money that would be required in case the market went up and margins had to be put up. I think some of you gentlemen asked such a question, and it is a good understanding of the facts that you want, so that perhaps if I just recite the modus operandi from start to end, going through with the bank part of it, it may be valuable. If A buys 100,000 bushels of wheat for $1 a bushel, he takes the warehouse receipts over to the bank and leaves the warehouse receipts and the insurance policies with the banker; he will also tell the banker that it is hedged. If the banker has the slightest disposition to question his word, he will ask him to bring the hedging contracts, which he will be furnished with. The banker then knows that he has the property and he has the contracts covering the hedge, and all that has to be done to make those contracts good all the time is to call margins from the people to whom the wheat is sold if the market should go down, so that the wheat would be protected against loss through their failure to receive and pay for it.

On the other hand, if the market should go up and the man owning the wheat should be required to put up margins, he would go to the banker and say: "The market is up 10 cents and I am called $10,000 on this wheat." The banker having the wheat and the contracts and knowing that it will be delivered if he deposits the margins, and thereby protects the contract—because if he did not deposit the margins the people who had the contract would enter the market and buy it for the account of A—will very readily advance the margin money. Of course he takes an ordinary promissory bank note for it and passes the money to the credit of A, and A immediately gives a check for the margin. This is written in two certificates, an original and a duplicate, and it states on the face of those certificates the names of both parties to the contract, and it also states that the money can not be released from deposit for the margin purposes until the margin certificate is returned bearing the indorsement of both parties to the contract. By that process you will see that the bank does not subject any of its money to being checked out into another bank, the bank being, as almost all of the large banks are, denominated by the board of trade as a depository for the deposit of money for margin purposes.

So that the hedging of the grain becomes an absolute certainty to the banker, under those circumstances, which are those which prevail in our market; whereas to hold 100,000 bushels of wheat without a hedge and the market going down 10 cents would involve, of course, a loss of $10,000, it would be pure speculation, and A might not be financially able to sustain such a loss, and the banker would find himself with the wheat certificates in hand, worth less than the amount of money he had advanced, and with no contract against them. I have gone this far, and you immediately say, "The Scott bill does prohibit that." I am aware of that; but suppose it is No. 3 wheat, and there is a parity of a cent; I can go to my bank with 100,000 bushels of that No. 3 wheat, and if it is No. 3 it can not be delivered on a contract, and the banker knows that I can not deliver it, but he knows that I have these contracts on an equal quantity of No. 2, and,

the market moving up and down, the most I could suffer would be a variation of that parity between the two grades, and that that would not be at any time a material sum of money; it might be a cent a bushel, $1,000 on 100,000 bushels, or, at 2 cents, $2,000, and the amount being small, he would rely upon A as being sufficiently able to take care of that.

A few words on the intention of the commission merchant to receive and deliver, as set forth by Justice Holmes. I am particularly anxious to elucidate this thought because of the questions which Congressman Beall has asked of some of the witnesses about his friend down in Alabama who would buy or sell. You will have gathered from what the Supreme Court has said, that there is always, without any exceptions or variations, an intent on the part of the commission merchant in Chicago when he receives that order, if it is to buy, to receive that grain for the account of the man who sends the order, and when he sells it to deliver it for his account, unless there should be a set-off, as Mr. Justice Holmes says, which is equal to delivery. If, buying that corn for the man in Alabama for May, and May 1 comes and he has not sold it, the corn will be delivered to me as the commission merchant, in warehouse certificates. I immediately insure it. I advise him that it has been delivered, that it has five days to run free of storage, when storage will begin at the rate of one-fortieth of 1 cent a day, or 1 cent in forty days, one-fourth of a cent for each ten days—only it does not run in fractional parts thereof as it does in some markets. We formerly had it that way, but we deemed it to be somewhat unfair, so that it is now fixed as I have said. We would continue to carry it for his account until such time as he should order it put on the cars and shipped and sold out in the market. If we sold it out on the market, immediately on selling it we would deliver it and render an account of sale, and if he should order it sold before the 1st of May that would not interfere at all with the receipt of the corn by us and its delivery just the same; having both the purchase and the sale for his account we are willing to send him an account of sales when he orders it sold, because our position is then defined.

We do not have to wait a minute on delivery. The delivery is made during certain hours when the delivery clerks are all assembled in one room and the delivery is consummated very rapidly; enormous quantities of grain may be delivered in few minutes. So that whatever may have been the intent of Mr. Beall's friend in making that order, for whatever purpose he may have wished to buy that grain, he has done a perfectly legitimate thing, according to the same decision of the Supreme Court, which I have not with me, but which you gentlemen are all familiar with, in which the Supreme Court has said that it is a perfectly legitimate reason for the buying of grain to buy it for the sake of the rise. A man does not have to have a mill or a bunch of steers to consume it, or he does not have to buy it for any other reason than that he believes it is good property to own, no matter whether he is mistaken in that belief or not; so that, knowing that our Mississippi friend has a perfect right even as a speculator to buy that grain, if he deposits with us a sufficient security we will give to him credit for the rest and will buy the grain for him and will handle it for him in that way; and knowing that we are thoroughly upheld by the law. And on that point, I suppose, the Scott bill is intended to

stop that kind of trading. I am not a lawyer, gentlemen, but the language of the Supreme Court is so clear that we fail, of course, to understand how such a law could be held constitutional. But that is not the point. We are not here to discuss law questions, we are here primarily discussing the ethical side of it because we believe we are entirely right, that this increment of the undesirable which attaches itself to us is very greatly enlarged upon whenever it comes to the surface and is recognized by the newspaper fraternity, and is featured a great deal more than it should be. The broad, silent, deep-flowing stream of commerce, of a thousand times more importance and volume, is not noticed; but the ripple on the surface, when one occurs, is made a great deal of, and I presume some of you gentlemen have had some experience with the newspapers when they have written up something you have said or done, and you have appreciated what gross exaggeration at times is indulged in, not because they wished to misrepresent, but because in many instances their sources of information are not reliable. However, we have expressed a great deal of concern about that, and realize that we are not half so black as we are painted, and that our good qualities, if we possess them, and we know we do—we may be allowed to say it—are little noted, and that you gentlemen here, with all due respect to you, are attaching too much importance altogether to this public notoriety attaching to this increment. We know that this undesirable increment attaches, and it always has, to men in all fields of human activity or endeavor, legislators, ministers of the gospel and everybody, and that it would be a vain and idle attempt to seek to eliminate it wholly from the grain trade. The speculator or speculation fills a gap between the buyer and seller of the grain, the producer and the consumer. That part I will not go into any further.

A scalper is but another speculator, but the scalper is hardly worthy of a moment's thought on your part or mine, because he does not do any harm or does not accomplish anything. He is an individual in every market; I have seen him in every market; that is, in the market of every commodity. I have seen him in the lumber market in Chicago buying cargoes of lumber when we used to get a good many schooners loaded with lumber, before the pine of Michigan and Wisconsin had disappeared; we were, as you may know, the largest lumber market in the world. We no longer hold that position. I have seen them buying live stock out at the yards, hogs and cattle by the carload, and horses, and I have seen them buying iron. In fact, John W. Gates, with whom I have been well acquainted for many years, made his first $30,000 scalping in iron. But the scalper exercises no influence on the exchanges. He is trading for the next fluctuation; that is all he is doing. What he buys this minute it is known that he is going to sell in the next two or three minutes, and when a man has bought a thing and is going to sell it again immediately, and he buys and sells it back and forth, it cuts no figure and has nothing to do with disturbing values from either the farmer's or the consumer's standpoint.

Gentlemen, I guess the rest of what I have to say to you may best be brought out by your questions. I assume that you have some questions to ask.

Mr. Hawley. In this matter you referred to a moment ago, let me make an illustration. A man buys 100,000 bushels of wheat,

and it is in the warehouse. He wants to borrow money on it. He has already hedged it. Suppose that suddenly he should suffer great financial loss, that a fire should break out in the warehouse and destroy a considerable portion if not all of the grain. The banker, to indemnify himself, would have recourse to the insurance on the grain?

Mr. MERRILL. We always deposit the insurance policies with the certificates.

Mr. HAWLEY. And you deposit the hedging contract?

Mr. MERRILL. If the banker asks for it. Of course, if he believes that I am honest he will not ask me to bring it to him.

Mr. HAWLEY. But you would have the hedging contract?

Mr. MERRILL. Oh, yes; that contract would be carried to him.

Mr. HAWLEY. That is, in a measure, an insurance.

Mr. MERRILL. Yes; he knows exactly where the grain is going.

Mr. HAWLEY. These questions that I am asking may have been already covered by others. I have not been here all the time. Have the contracts as made on your exchange ever been tested in the courts?

Mr. MERRILL. Yes.

Mr. HAWLEY. They have been held legal in all instances?

Mr. MERRILL. In all instances; by the Supreme Court.

Mr. HAWLEY. In all instances?

Mr. MERRILL. In every instance.

Mr. HAWLEY. Have you ever changed them to conform to the decision of the court?

Mr. MERRILL. No, sir.

Mr. HAWLEY. In what courts have they been tested?

Mr. MERRILL. In the supreme court of the State of Illinois and in the Supreme Court of the United States, and in other courts.

Mr. HAWLEY. In case a member of your exchange fails to keep his agreement with you, would you sue him?

Mr. MERRILL. The proceeding would be before the directors. We only expel for dishonest conduct. We suspend for dishonorable conduct. He would be suspended from all privileges of the board until he had met his engagements. If there was any question about it, it would be submitted to a committee of arbitration of ten men, and if he was not satisfied with that arbitration he could appeal it to a committee of appeals of ten men. Ordinarily the outgoing president goes onto the board of appeals.

Mr. HAWLEY. That does not quite answer my question.

Mr. MERRILL. Then if there was any question about it and he still refused to pay, he would then be suspended. Then of course being suspended and off the board, if he had money and we could not get it from him in any other way, we would have to sue him. That would be our only recourse then. But we call margins on contracts as may be needful; we do not have those questions arise.

Mr. HAWLEY. But you would sue him?

Mr. MERRILL. Yes.

Mr. HAWLEY. But not until he was expelled from your membership?

Mr. MERRILL. We would exhaust our own remedies first.

Mr. HAWLEY. That does not happen often?

Mr. MERRILL. No, sir; there may have been instances, but I can not recollect any of them.

Mr. HAWLEY. Have you filed with the committee citations of the decisions?

Mr. MERRILL. No, sir; I have not.

Mr. HAWLEY. Have you them, so that you can file them?

Mr. MERRILL. I will engage to do so as soon as I return to Chicago. I will ask our attorney, Mr. Robbins, to make up a list of them.

Mr. HAWLEY. I wish you would.

Mr. MERRILL. I will certainly attend to it, sir. Did you hear me read the decision of the Supreme Court?

Mr. HAWLEY. Yes.

Mr. MERRILL. It covers every point that can be raised. It gives us as clean a bill of health as any exchange could have. That is from the Supreme Court of the United States.

The CHAIRMAN. In glancing through the rules of the board of trade I notice in section 20 on page 22 some terms that I do not exactly understand and I would like to have your interpretation of them.

> The board of directors is hereby empowered to establish a public "Call" for corn, oats, wheat, and rye to arrive, to be held in the Exchange room immediately after the close of the regular session on each business day.

What do you mean by that?

Mr. MERRILL. You asked about the call, did you not?

The CHAIRMAN. Yes.

Mr. MERRILL. Very well; to answer your question. The call is a call for car lots of grain to arrive. Grain sold for shipment from the country to Chicago, this is now February, will first be "seller, the month," and then the next to be called will be first half of March; and then March, and so on through; and anyone out in the country having a carload of corn or a carload of oats or any grain, it being a less quantity than can be sold for forward delivery in the pit, and hedged in that way, sells it on the call with the intent of delivering that identical car, of course, when he ships it in. Now, we did that because—I hope my elevator friends back here will not think I am trenching on their province—we did that because elevator concerns, or large concerns in our market, by reason of their having the ownership of elevators, had a great advantage. It costs three-quarters of a cent for elevation and storage for the first ten days, and then this one-fortieth of 1 cent begins ten days after that; and that three-quarters of a cent always follows the grain. The man who delivers it on contract does not deduct that. The man who ships it out pays that. If I buy a cargo of grain I pay that three-quarters of a cent for the discharging of my grain to my vessel. Now, these men got control practically of all the grain moving to Chicago, and the smaller fry were out. Our business was greatly interfered with, because they would use, as I said, that three-quarters of a cent, or part of it, to bid more than we could afford to bid.

And so the call was established, and the board exercising its right by rules and regulations over its members, prohibits trading in grain of any kind for future delivery after 1.15 o'clock, when the session closes, until 9.30 next morning when it opens, and likewise it prohibits any trading in grain to arrive in car lots, except at the prices established on the open call. Otherwise we found we were kept down in our

offices until nearly midnight, and we had to stay there in order to take care of our business, because we would be constantly called up over the telephone by somebody who would say "Smith has offered me so and so for a car of corn, and what will you do?" After the close of the exchange, trading was adjourned to some other place, and it got so bad that they used to adjourn to the lobbies of one or two of the hotels, or a number of men would assemble somewhere and continue to trade, so that the board exercised this right, and it is wholly within the provisions of our charter. In fact, United States District Attorney Sims had his attention directed to this call, thinking it was possibly a restraint of trade, and I went over with our attorney to explain it to him—this was a year ago—and he said: "I can readily understand how you have a right to exercise that function of control over your members." The result of it was that it carried the trade back into the hands of 150 or 200 firms, which, without the call and until we instituted it, had drifted into the hands of a few men, showing where the grain trade of the country will go unless it can be kept broadly based.

The CHAIRMAN. Then, in brief, if I understand your explanation, this rule is intended to prohibit the members of your exchange making any offer for corn or buying corn between 1.30 p. m., when the exchange closes, and 9.30 a. m. the next morning, when it opens?

Mr. MERRILL. That is the result of the establishing of a call where buyers and sellers of car lots of grain may go and transact their business, of course, through a member of our board.

The CHAIRMAN. Would a member of your board be permitted under the rules to send a bid out to a country merchant for corn, naming any price other than that fixed at the call?

Mr. MERRILL. Naming none above it.

The CHAIRMAN. Naming none above it?

Mr. MERRILL. Naming none above it during the hours that the exchange is closed. You understand, he could bid anything he wanted to between 9.30 and 1.15.

The CHAIRMAN. I understand, but he could not bid above a certain figure between 1.30 and 9.30 the next morning?

Mr. MERRILL. No.

The CHAIRMAN. Is it not a fact that nearly all the bids sent out through the country are sent out by mail after 1.30?

Mr. MERRILL. Yes, sir; the bids go out; but the next morning if the market should be higher so that they could pay more, all the grain dealers throughout the country are very well informed now through telephones or otherwise, and they will phone in and say, "Your bid yesterday on corn was 67. I can sell it to you at 67½." Or they will file with us a sale list. There is a class of farmers of whom the grain dealer knows that he can buy their corn at a spot price, and they have told him when he can sell it for that he can book it and phone them, so that the call in that way carries to the grain dealers in the country in the morning a bid on which they may work with their farmers.

The CHAIRMAN. But it carries, all of them, the same bid?

Mr. MERRILL. Yes.

The CHAIRMAN. It practically eliminates competition between 1.30 and 9.30 the next morning?

Mr. MERRILL. Yes.

The CHAIRMAN. To that extent is it not in restraint of trade?

Mr. MERRILL. You say in restraint of trade. That is not the intent of the call, at least. It would be paradoxical to say that it was a restraint of trade, because as a matter of fact the establishing of the call restored the greatest freedom of trade. That was the object of it. There was great restraint of trade established by the concentration in the hands of seven firms, of the business, before the establishment of the call; and the theory of it and the practical working of it is to restore that trade to the open bids and competition of at least 150 separate firms instead of seven firms.

The CHAIRMAN. Why was it concentrated into the hands of seven firms?

Mr. MERRILL. I have sought to show you that these seven firms owned the elevators, and that we would have to pay that three-fourths of a cent storage. If the grain went into the elevators, those people had the advantage of that.

The CHAIRMAN. And yet from the standpoint of the seller of the grain would it not be better to have competition between seven firms than to have no competition between 150 firms?

Mr. MERRILL. He has now active competition of all buyers. It is only suspended until the next morning, and then he has the most active competition of all of them until 1.15, so that there is no restraint.

The CHAIRMAN. Then the remedy in the hands of the seller is not to accept any offer he gets between 1.30 and 9.30?

Mr. MERRILL. He does not need to, sir. These acceptances are all due to be received in Chicago before the opening of the market the following morning. The operation of it, Mr. Chairman, I assure you, has been very excellent in that it has given a very much broader market and wider competition than existed before.

The CHAIRMAN. Have you any information as to whether it has been more satisfactory to the sellers than the former condition?

Mr. MERRILL. Well, I have heard no complaint about it. In fact, I am very sure that it is much more satisfactory to them.

The CHAIRMAN. I called the attention of Mr. Fitch the other day to two or three market letters containing paragraphs which were evidently intended to encourage gambling, pure and simple. Do I understand that such paragraphs are uncommon in the market letters sent out by members of your exchange?

Mr. MERRILL. Well, Mr. Chairman, you say "evidently intended to encourage gambling." I stated a little while ago that every order executed on the board contemplates the delivery. Now, your wording, "gambling," I could not consent to.

The CHAIRMAN. I used that word because I did not want to beat around the bush. We understand very well what the transaction is.

Mr. MERRILL. Yes; it is speculation, simon pure. Whether these persons are qualified to buy grain for forward delivery because they think it is going to rise or not is not my business, because I do not know who they are; but with respect to the market letter, I do not know who he is, and I do not want it to be of record here that I do know, because some of these people will think that as a representative of the Chicago Board of Trade down here I have injured them. I think I can identify it well enough; and there has been talk, Mr. Chairman. Not long ago a matter was brought before our board of

directors and as we were going out of the room, informal conversation occurred with respect to some of these overstatements, as you may call them. I scarcely know just how to well describe them, but we think they are undignified, to say the least; that they do not reflect the proper degree of dignity on the board of trade in that they are seeking to get what we call small speculators, and that is the class which we generally discourage all we can, because as a rule they are not financially equipped to speculate.

The CHAIRMAN. Do you make that statement with consideration, that the small speculator, in the newspaper parlance of to-day, the "lamb," is generally discouraged?

Mr. MERRILL. Yes, sir; I think that is true with nearly all board of trade firms. If you will allow me to say this for myself, I invariably advise a man to not speculate. I have never encouraged anybody to do it. I have had to conduct the business at times on a large scale for those who said they were going to do it anyway, and they have said, "If you want the business, all right; if not, we will let somebody else do it." But I have returned money many times to men who have said to me, "What do you think of wheat; is it a purchase?" I can see that with them it is a very great risk. They have not the well-equipped intelligence that Cohn, the German economist, describes as belonging to the speculator.

The CHAIRMAN. Do you return such letters as those when they come from your personal friends or from your regular customers only, or do you return all such, whether you know the writers or not?

Mr. MERRILL. All such.

The CHAIRMAN. What proportion of the membership of your exchange do you think follows your custom in that respect?

Mr. MERRILL. I should think a very large proportion of it.

The CHAIRMAN. More than half?

Mr. MERRILL. Yes, I think nearly all; I should think 90 per cent of them, certainly.

The CHAIRMAN. Then if, in the judgment of 90 per cent of the membership of your board, such practices are inadvisable, not to say indefensible, it would not seem to be a very difficult matter to adopt a rule that would prohibit them, would it?

Mr. MERRILL. Not if you could censor those orders. You would have to establish some means of passing upon those orders which would fairly represent the board, or which would fairly represent the voice—the concrete opinion of the board. That is where the difficulty resides, you know. It is private business, so to speak, and you can hardly know whether somebody will view that particular order in the same way that you do, and it is hardly feasible to establish a censorship of that business.

The CHAIRMAN. It seems to have been feasible on some other exchanges. There was a gentleman who was here the other day, testifying on behalf of the Minneapolis Board of Trade——

Mr. MERRILL. That was in respect to sending those inflammatory market letters?

The CHAIRMAN. Yes. He made the statement that their rules prohibited such statements in letters, and I believe the gentleman from the Toledo board made the same statement regarding his exchange.

Mr. MERRILL. Yes.

The CHAIRMAN. And it would seem that what has proven to be feasible on those boards might be practicable on the Chicago Board of Trade.

Mr. MERRILL. I can only assure you that if Congress could, by law or in any way, enable us to differentiate between the desirable and undesirable, we should be most happy to assist in every way that we might. That would be a very difficult thing to accomplish.

The CHAIRMAN. Of course you understand that Congress can not go into a State and legislate touching a matter which is wholly within the State.

Mr. MERRILL. No; that is right.

The CHAIRMAN. And yet it would seem that it might be possible for an organization to prohibit by rule or regulation a practice which nine-tenths of its members declare to be unwise, injudicious, and harmful.

Mr. MERRILL. I appreciate, Mr. Chairman, and of course you will realize, that is doing it, in that case, from an ethical standpoint, not from a legal standpoint. The Supreme Court has upheld the receiving of any of those orders, if we wish to do it. There is nothing illegal or unlawful about it. You will have to get the Supreme Court to change its attitude on that before it could be enforced, because a man with $100 who wants to buy 1,000 bushels of grain because he believes it is going up, has the same lawful right to buy that 1,000 bushels of grain as a man who has $100,000 and wants to buy more.

The CHAIRMAN. Yet it would seem if the rules of the exchange are powerful enough to prohibit its members from competing with each other in the matter of prices between the hours of 1.30 and 9.30, they ought also to be powerful enough to prevent its members from inserting objectionable matter in their market letters.

Mr. MERRILL. I agree with you, fully. As I the other day rose to state, there is some talk of censoring the letters. Now, we are back to the letters. We were speaking before of the small dealers. I agree with you heartily, and I think, under the provision even of our charter, that the board could do this. It is a matter that has been given informal consideration of late. The provision I speak of is this:

> Said corporation is hereby authorized to establish such rules, regulations, and by-laws for the management of their business and the mode in which it shall be transacted as they may think proper.

Would you not think that that would cover the authority?

The CHAIRMAN. It would seem as if that would convey very broad authority.

Mr. MERRILL. I think so.

The CHAIRMAN. Then you would not have any difficulty in reaching that evil; and, if I may be pardoned the suggestion——

Mr. MERRILL. Very glad of your suggestion; do not be afraid.

The CHAIRMAN (continuing). It would appear that if by resolution you could eliminate that objectionable feature in your exchange you would go very far toward eliminating the criticism of your methods, generally; because nobody is complaining, through the country or on this committee or elsewhere, of the practice of hedging in a legitimate way. The complaint is that inducements are held out, that temptations are offered, to the lambs to come in from all over the country

and be sheared, and there seems to be too much ground for that complaint.

Mr. MERRILL. President White told you the other day about the vote; had 26 of our members voted the other way, and I think there are a good many of the others who have changed their minds since, we should have had such a rule; but following that, Mr. Chairman, a resolution was offered before our directors which provides that any attempt at forestalling or cornering or manipulating the market will hereafter be regarded by this directory as being a grave offense, and our rule relating to such offense shall be rigidly enforced. I offered that resolution myself, and it was unanimously adopted by the entire directory; so that any member of our board to-day who attempts manipulation or forestalling or cornering the market will be expelled.

The CHAIRMAN. I think there would be little against the board——

Mr. MERRILL. The sentiment has grown very rapidly among our members. I want to say that in 1895 we had the most drastic corner rule drawn by the late Judge Beckwith, of our State, and it remained on the books for eleven years, until 1888. There were no corners, and the producing public made such a "holler," so to speak, if you will allow me that word, saying that we had killed the bull in the market; that the price was always down; that we had this corner rule, and if a member did anything that looked like cornering the market we would expel him and deal with him; and a campaign was waged among the patrons of the board—and these, mark you, were the people who produced the grain—and that rule was repealed after being on our books for thirteen years.

And now that consumption has overtaken production, and that incidents which formerly did not create a ripple, because of the great supply of grain impending and hanging over the market, are no longer at work, this great change in the conditions has come. I suppose you read in the paper a little while ago about the Albany miller cornering wheat in our market. Well, he had about 800,000 bushels bought, an infinitesimal amount compared with the great stock in our market, and it came up to the last day of this last September and the market was $1.09½. I was one of the committee appointed by the directors to investigate that affair and see what there was in it and make a report, and we had numerous witnesses, all who were in any way interested in or related to that, before us and under oath, and one witness testified that he was given an order to purchase 5,000 bushels of wheat, and it was $1.09½, and he bid $1.09¾ and he did not get it, and he bid $1.10 and he did not get it, and inside of two minutes, without a sale being made in the pit, it was $1.15, and after only two other sales it was $1.20. The name of this man has been so public in the papers that I need not hesitate to mention it. I refer to Mr. Waterman. He is a resident of Albany, N. Y., and not a member of our board. At that price, $1.20, he being in Chicago at the time, he authorized his broker to begin selling, and he supplied all the demands at $1.20. Next morning, the first day of October, he had all of the receipts for the No. 2 red winter wheat, which by reason of its scarcity has a premium of 12 to 15 cents on it now, picked out of the lots of receipts that had been delivered to him, and sold it all to mills at $1.21½.

The Chicago Board of Trade was not responsible for that occurrence. There was nobody particularly injured. That does not occur frequently; it is a rare occurrence. But in this rule that we came so near enacting was a clause which required the establishing of a true commercial value of any commodity which by reason of manipulation or any other cause had been so carried out of and beyond its real value; that is, carried up to a value that you might call fictitious. Although that did not prove to be fictitious with No. 2 red winter wheat, yet his No. 2 winter and No. 2 hard were not worth that. They were still below.

The CHAIRMAN. If that class of our population which uses the Chicago Board of Trade in the same way and for the same purpose as the bucket shops are used should withdraw their business from Chicago, would it interfere in any way with the operations of your board?

Mr. MERRILL. No; I do not think it is sufficiently large. I do not think we would know it; we would not appreciate it. It is only here and there that an individual does that.

Mr. SIMS. I understood you to speak of its being desirable to get rid of what you call the "small dealer?"

Mr. MERRILL. Yes, sir.

Mr. SIMS. Now, if the business is a good one and it is an ethical business and a business that is a benefit to the whole country, why deprive any class of the privilege of using its rules?

Mr. MERRILL. That is why I said it is only for ethical reasons and not legal reasons.

Mr. SIMS. You could increase the amount of the contract and eliminate the little people, could you not?

Mr. MERRILL. Yes; in fact, in wheat we do trade in 1,000-bushel lots. In other grains it is 5,000-bushel lots.

Mr. SIMS. If they want to get rid of the little fellow, all they have to do is to make the rule so as to exclude him; that is, increase the minimum contract?

Mr. MERRILL. They might do that.

Mr. BURLESON. Or increase the margin?

Mr. SIMS. That would affect the big man just the same.

Mr. MERRILL. That was the Hughes report, that that is the objectionable part of speculation; that is the small fry, as we will call it; and that commission recommended that the margin be increased so as to prevent the smaller men, the men of small means who can not afford to lose a dollar, perhaps, from trying to speculate. It is the weak that Justice Holmes speaks of, too.

Mr. SIMS. That would indicate that the majority of small dealers lose in all your exchanges.

Mr. MERRILL. Sooner or later.

Mr. SIMS. And yet you insist that it is a natural market.

Mr. MERRILL. Yes; a natural market.

Mr. SIMS. You have used corn as an illustration, and I will also adopt it as an illustration. How many grades of corn are deliverable on your contracts?

Mr. MERRILL. No. 2 only, but in the three colors—No. 2 yellow, No. 2 white, and No. 2 mixed.

Mr. SIMS. Are they of the same market value?

Mr. MERRILL. Yes; they are practically of the same market value, because the first two put together will make mixed. At times the

white for the southern trade has a premium of 2 or 3 cents over the other. I have known it to be 5 cents because of its scarcity.

Mr. SIMS. Then under your market contract it is not permissible to deliver a lower grade of corn at an overvaluation of price?

Mr. MERRILL. No, sir; he can deliver No. 3 corn at 5 cents discount. I have never known it to be 5 cents.

Mr. SIMS. Would you regard it as in harmony with the correct rules of commerce to permit the delivery of a lower grade of corn at an overvalued price?

Mr. MERRILL. No, sir; in our business that would be the same as if a man——

Mr. SIMS. If that was permitted, what would be the effect on the market price of corn?

Mr. MERRILL. I think it would depress it.

Mr. SIMS. Do the prices of your future contracts maintain a parity with the prices of actual corn—the market prices of actual corn?

Mr. MERRILL. Oh, yes, sir.

Mr. SIMS. If this parity was not maintained, if there was a violent fluctuation in this margin, and your futures would sometimes go up at the same time that your price of corn goes down, or, vice versa, when the price of futures goes down the price of corn goes up——

Mr. MERRILL. Yes.

Mr. SIMS (continuing). Would it be safe to buy a future contract for hedging purposes?

Mr. MERRILL. Yes, it would be safe; but that parity, you understand, might fluctuate, but it would fluctuate within small limits, comparatively.

Mr. SIMS. Within small limits? In a way, the parity would remain uniform; if your futures went up, your corn would go up?

Mr. MERRILL. Yes.

Mr. SIMS. If your futures went down, your corn would go down?

Mr. MERRILL. Yes.

Mr. SIMS. Now, suppose that under the operations of the rules of your exchange it was possible to so bring it about that this margin was wiped out, that the parity was destroyed, would it then be a safe proposition to attempt to hedge?

Mr. MERRILL. If I understand your question, that would mean that if May corn and spot corn, or cash corn, were same price would I think then it would be safe to hedge? Is that what you mean?

Mr. SIMS. No; what I mean is this: If under the rules and operations of your exchange it is possible for the price of your futures to go down——

Mr. MERRILL. Yes.

Mr. SIMS (continuing). And at the same time the price of spot corn to go up——

Mr. MERRILL. Yes.

Mr. SIMS (continuing). Would it not catch a man who attempted to hedge, and pull him at both ends, and would he not lose on his futures and on the corn?

Mr. MERRILL. Yes; he would lose in that case.

Mr. SIMS. But you say that does not take place on your exchange?

Mr. MERRILL. No, sir.

Mr. SIMS. But if it did take place, would they not pull him at both ends?

Mr. MERRILL. Yes, sir; but when May comes, cash corn is May.

Mr. SIMS. Yes, I understand that. As the contract month comes around, the prices of the futures and spots gradually come together?

Mr. MERRILL. Yes.

Mr. SIMS. But if that was not the case, your hedge would not be worth much to you, would it?

Mr. MERRILL. Yes, for it could not be otherwise.

Mr. SIMS. Well, but——

Mr. MERRILL. All right.

Mr. SIMS. You say it could not be otherwise. I do not know enough about it to take issue with you, and I am not going to take issue with you; but suppose on some other exchange that did not take place?

Mr. MERRILL. Yes.

Mr. SIMS. Another thing; you spoke of Patten as a great merchant?

Mr. MERRILL. Somebody did.

Mr. SIMS. No; you used that expression. I wrote it down.

Mr. CUSHING. I said that.

Mr. MERRILL. Mr. Cushing used that expression. I did not use his word. However, I am ready to answer any questions.

Mr. SIMS. I thought it was you. I wrote it down. Is Patten a great wheat merchant or a great cotton merchant?

Mr. MERRILL. He deals in wheat and all kinds of grain.

Mr. SIMS. Is he also a cotton merchant?

Mr. MERRILL. Not that I know of. I have seen his name connected with the buying of a lot of cotton in New York. Beyond that I do not know anything about it.

Mr. SIMS. Do you regard the operations of a merchant who is willing to plunge upon the market for the purpose of depressing or inflating the price as advantageous to the trade?

Mr. MERRILL. No, sir; they are very disadvantageous, very injurious.

Mr. SIMS. If it were possible to effect a combination between plungers and go upon an exchange and manipulate, depress or inflate, the price of the product, would you regard that as hurtful or beneficial to the trade?

Mr. MERRILL. Hurtful.

Mr. SIMS. Extremely hurtful?

Mr. MERRILL. Extremely hurtful.

Mr. SIMS. Extremely?

Mr. MERRILL. Yes, sir.

Mr. BURLESON. You spoke about your contracts on your exchange having been filled in every particular, and you referred especially to the case of the board of trade against the Christie Grain Company?

Mr. MERRILL. Yes.

Mr. BURLESON. As a matter of fact, in order that this committee may thoroughly understand what that case was, the case of the Chicago Board of Trade against the Christie Grain Company was a suit by the exchange against a man that you charged was a bucket-shop keeper, or the keeper of a line of bucket shops, was it not?

Mr. MERRILL. Christie was; yes, sir.

Mr. BURLESON. And the subject-matter of that litigation was the market quotations and prices created by your exchange, was it not?

Mr. MERRILL. You mean that Christie——

Mr. BURLESON. Took the prices from the board of trade prices?
Mr. MERRILL. Yes.
Mr. BURLESON. That is right. The subject-matter that you were litigating over was the property rights——
Mr. MERRILL. The property rights.
Mr. BURLESON (continuing). In these market quotations and prices?
Mr. MERRILL. That is right, as well as the illegality of his prices.
Mr. BURLESON. Christie, when he answered, set up a defense admitting that he was running a bucket shop, and that his transactions were gambling transactions, but answered back that yours was a colossal bucket shop—a great big bucket shop?
Mr. MERRILL. I know that he said so.
Mr. BURLESON. And he attempted to prove that your transactions were all of them substantially transactions where the buyer had no intention of receiving and the seller had no intention of delivering the subject-matter of the contract?
Mr. MERRILL. That was his attempt, I think.
Mr. BURLESON. And he failed of making his proof, did he not?
Mr. MERRILL. According to the decision.
Mr. BURLESON. According to the decision he failed in making his proof?
Mr. MERRILL. Yes, sir.
Mr. BURLESON. And in this decision Mr. Justice Holmes, going on to differentiate between these various kinds of transactions on your exchange, finally reached this part of his decision where he says:

> It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in the country are to be regarded as mere wagers or as pretended buying or selling, without any intention of receiving and paying for the property bought or of delivering the property sold.

Mr. MERRILL. That is right.
Mr. BURLESON. Consequently he said "This character of transactions I am not speaking about at all," when he upheld the transactions of the Chicago Board of Trade? Is not that the effect of his decision?
Mr. MERRILL. As being against the bucket-shop feature of it?
Mr. BURLESON. Wait a minute. Does he not say, to put it in a few words, that it is unlikely that the transactions on the Chicago Board of Trade are pretended buying or selling, without any intention of receiving and paying for the property bought or delivering the property sold?
Mr. MERRILL. I do not so understand it.
Mr. BURLESON. Have I not read that very language there?
Mr. MERRILL. But I do not understand it as saying that it is unlikely.
Mr. BURLESON. And then he expressly declined to give his approval to that character of transactions?
Mr. MERRILL. The language is:

> It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in the country are to be regarded as mere wagers, or as pretended buying or selling——

and they are not——

> without any intention of receiving and paying for the property bought, or of delivering the property sold.

Mr. BURLESON. Wait a minute.

Mr. MERRILL. All right.

Mr. BURLESON. He does not say that that is a likely proposition, does he?

Mr. MERRILL. I so understand it; because the proof was in the court, on which that decision was rendered, that every transaction made on the board of trade does contemplate the delivery; and as he goes on to show, unless there is an offset, it is delivered.

Mr. BURLESON. Does not Judge Holmes say that it is incomprehensible to him and that he will not accept the proposition, that those are that character of transactions that take place there, believing thereby that they are all legal, believing also that these are not the character of transactions that take place there?

Mr. MERRILL. That the bucket-shop transactions are not; that is right. He believes that those are not; that those are not correct.

Mr. BURLESON. Then a bucket-shop transaction is a transaction where the buyer has no intention of receiving and the seller has no intention of delivering?

Mr. MERRILL. Yes.

Mr. BURLESON. You admit that that is an illegal transaction?

Mr. MERRILL. Yes, sir.

Mr. BURLESON. You admit that it ought to be prohibited?

Mr. MERRILL. Yes; I do.

Mr. BURLESON. It ought to be abolished?

Mr. MERRILL. Yes.

Mr. BURLESON. And prohibited; and that is what you meant when you said if the committee could find a way to point out how to prohibit that, you would be glad to have it?

Mr. MERRILL. Sure.

Mr. BURLESON. If Mr. Scott's bill confines itself exclusively—and does not touch any other sort of transactions—to transactions where the buyer does not intend to receive and the seller does not intend to deliver, you have no objection to it, have you?

Mr. MERRILL. Not if that is the provision of his bill; but that is not. It does not come anywhere near it. If you have a bucket-shop bill, and have it understood that it relates only to that class of business, gentlemen, here is my right hand, and I am with you to the end.

Mr. BROOKS. If all those classes of transactions were eliminated, would not that be asking your exchange to voluntarily commit suicide?

Mr. MERRILL. It would not, if you ask us to eliminate the bucket-shop feature of it. I have explained here that the courts have held that in every order executed on the board of trade it is implied must be made according to the rules and regulations of the board of trade, that they become a part of that contract, and that those rules and regulations provide for delivery in every instance unless a set-off is had.

Mr. BROOKS. One more question, which has not been asked in all these hearings. Would it be possible for an insurance company to take the place of this hedging, and fulfill the same purpose?

Mr. MERRILL. I do not believe any insurance scheme could be made to work, because they would charge a great deal more in premiums.

Now, you have raised the question of insurance. I want to say this, and I do not want it to go in the record. No; I do not care whether it is made a part of the record or not. You gentlemen realize that the biggest speculator—or "gambler," if you wish to attach that word to business, which I deprecate—the biggest gambler or the biggest bettor in the world is the insurance company in betting the face of the policy against the premium. Tremendous odds! And the company frequently goes broke in doing that. The percentage of insurance companies that fail is larger than the percentage of men who speculate.

Mr. BURLESON. Have you a copy of the Scott bill?

Mr. MERRILL. I have had a dozen of them. I think I have one at the hotel.

Mr. BURLESON. Suppose you take the entire night, and come back here in the morning, and put your finger on one single transaction denounced there other than the transaction where the buyer does not expect to receive or the seller to deliver. Suppose you take the whole night to it and come back to-morrow and do that.

Mr. MERRILL. Let me ask you this, in order that I may go home to Chicago well informed: I should like to have this committee consider the case of a man having a lot of No. 4 corn or No. 3 corn, corn possessing disabilities which could not be eliminated, not such as dirt or excessive moisture, but such as moldy kernels, unsound grain, who wished to hedge that 50,000 bushels of grain in Chicago. Knowing that he could not deliver it, he would want to ship it southeast Texas or southeast Florida way, and that, as I understand it, would be a violation of the theory of the Scott bill; and that is a vast business, an enormous business; and there are some others that are equally like it. It would paralyze business, gentlemen, to stop that; instead of carrying a working stock of grain of, say, 50,000 bushels, in my elevator, hedged, I would have to reduce it to such amount as I might be willing to risk. Now, I went about among the trade at Chicago and said, "Suppose Mr. Scott's bill is enacted into law and is declared constitutional, tell me what effect it will have on your business?" The answer I got from the first man was, "Instead of buying 100,000 bushels of grain to be hedged at 1 cent per bushel, on which I would get $1,000, I would buy 10,000 bushels of grain at a 5-cent margin. I could not think of touching it for less than 5 cents." And I tell you as a grain merchant—that is my business, gentlemen—with thirty-two years' continuous experience and successful trade on the floor of the exchange, that I would not dare to take over a quantity of grain and carry it without hedging it, because that would be to make myself a speculator. To hedge is not to speculate. And, if you will allow me to speak of myself, gentlemen, I have been for thirty-two years on the board of trade, and I have never had a speculative trade for myself since I have been there; not one. I have had many hedging trades against the grain I have had in the elevator to eliminate speculation. So that you can see I am speaking in favor of the proper place or regulation of hedging in business because I have a personal interest in the matter. That is the reason I ask you to give me the privilege of being personal in my remarks. I know that it is not in good taste.

The CHAIRMAN. If there are no further questions, this will close the hearings on the part of those representing the grain trade, and on

behalf of the committee I wish to convey to yourself, Mr. Merrill, and your associates, our thanks for the attendance of your representatives here and the information you have given us.

Mr. MERRILL. On their part, Mr. Chairman, I desire to thank you and all the gentlemen of the committee for your courtesy and patince in hearing us.

TESTIMONY OF HON. ASLE J. GRONNA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA.

Mr. GRONNA. Mr. Chairman, I have a telegram and a letter here from the American Society of Equity that I would like to place before the committee and have incorporated in these hearings.

The CHAIRMAN. We will be very glad to have it.

Mr. GRONNA. I did intend to say a few words on this subject, but I realize that, being only a farmer and never having speculated in options, I could add but very little to what has been said and to the testimony that has been offered to this committee.

I want to say, however, Mr. Chairman, on the question of dealing in futures—and as I understand it, that is what this committee is considering here—there is no legitimate business can do away with the dealing in futures. That may be a broad statement. Every wholesale merchant, every boot and shoe dealer, every clothing manufacturer, and every tanning factory must deal in futures; but the objection that is being raised by the producers of the agriculture of the country is that you sell more than we produce. No wholesale dealer sells more than he manufactures, and no retailer buys any more goods than he can dispose of. What we object to as producers of grain is this speculating in grain which does not exist.

We will say, for instance, that our State, North Dakota, produces a million bushels of grain. I do not believe that anyone has any objection to the sale of a million bushels of grain, if they want to "hedge," as it is called; but, on the other hand, if the sale is made of several millions of bushels of grain which does not in reality exist, then it is evident to me, as it must be to everyone, that that is gambling, because it is dealing in something that does not exist. I have always been of the opinion that the practice of dealing in futures, in something that does not exist, is detrimental to the producing classes. There is no reason why a stock manipulator, if he is allowed to sell and to buy great quantities that do not exist, can not either inflate prices or reduce them. I am sorry to say that I have not had an opportunity of having a copy of Mr. Scott's bill, but I understand that what this bill does is to do away with the illegitimate dealing in futures. That is exactly what the farmers of my State and the people of my State would like to have done. As I said, I have a telegram here from the American Society of Equity, and I also have a letter from them which I would like to read for the benefit of the committee, if it is of any value. In this letter they say:

Hon. A. J. GRONNA, *Washington, D. C.*

DEAR SIR: Your telegram to Mr. Pierson has been forwarded here by mail, by the new secretary of the North Dakota Union, J. M. Anderson. I have just wired you as per inclosed copy.

This is the telegram:

INDIANAPOLIS, IND., *February 19.*

A. J. GRONNA, M. C., *Washington, D. C.:*

File with Committee on Agriculture request of American Society of Equity committee on national legislation to amend Scott bill so as to require a detailed description of the exact location in field or warehouse of any commodity offered for sale for future delivery when offer is made. We are with Farmers Union in war on crop gambling. Can't get to Washington within ten days.

THEO. G. NELSON,
E. L. DAVENPORT,
Committee.

The letter continues as follows:

The American Society of Equity has a national legislative committee composed of E. L. Davenport, Cisney, Ky., president of the tobacco grower's department, and the undersigned. In order to give this matter as much prestige as possible, it would be well whenever you give anything to the press with reference to Equity legislation that it be impressed upon the public that the American Society of Equity has a standing committee on national legislation.

There will undoubtedly be thousands of objections to our proposed amending of the Scott bill, which must be expected whenever any effort is made to create conditions that will really make it difficult to buy or sell farm products of any kind for future delivery or otherwise by people who neither own nor control to such an extent as to be able to deliver any of the real commodities. I will but briefly give an illustration of the application of our proposed amendment in the case of a North Dakota grain grower who wants to sell a carload of wheat for delivery in November, and makes the sale in September and has his grain in the granary. He would, in case he expected to make sale by wire, file his affidavit that he had his grain stored in his granary or in shock in the field, describing the field geographically as per government survey, with whomsoever he expected to have act as his agent in the transaction, or with the purchaser in case he expected to sell it direct to some miller or manufacturer. The people who sell our grain before they get it would encounter some difficulty in describing where they have their grain. While they might be able to establish, or rather fake up, acceptable proof of their intention to deliver, they would have considerable trouble in proving that they had any grain at all.

There is no good reason why grain and cotton, for instance, shall be bought and sold at stipulated prices without the real possessor of it knowing anything about the transaction. If some one should undertake to buy and sell our farms in that way, it wouldn't be long before there would be some noise in this country. Ordinarily a man can not dispose of his equity in a contract to purchase a farm without the consent of the man who holds the warranty deed.

On account of the March 1 issue of the paper which I am editing I can not possibly get away now.

I would be glad if you would have the Congressional Record sent us here, one copy for the Equity Farm Journal and one for the American Society of Equity. I find that it does not constitute a part of the daily mail at present.

Thanking you in advance for this favor and for calling our attention to this hearing, I am,

Very truly, yours,

——— ———,
National Legislative Committeeman.

(At 4.30 o'clock p. m. the committee adjourned until to-morrow, Wednesday, February 23, 1910, at 10.30 o'clock a. m.)

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Thursday, March 3, 1910—11 o'clock a. m.

The CHAIRMAN. The committee has met this morning, pursuant to an order made some days ago, to continue consideration of the so-called antifutures bills. Mr. Atwood Violett, of New York, has requested to be heard, and if he is ready the committee will be glad to have him proceed.

TESTIMONY OF MR. ATWOOD VIOLETT.

(The witness was sworn by the chairman.)

The CHAIRMAN. Are you a member of the New York Stock Exchange?

Mr. VIOLETT. I am a member of the New York and New Orleans stock exchanges.

The CHAIRMAN. Where is your place of business?

Mr. VIOLETT. Twenty Broad street.

The CHAIRMAN. You may proceed.

Mr. VIOLETT. I am pleased to appear before your committee to testify regarding the matters you have under consideration in connection with the investigation the committee is conducting.

I succeeded my father in the cotton business, at New Orleans, very many years ago, and have been continuously identified with it for forty years, and because of this long experience, and the greater part of it in the southern market, I have reason to believe that I am competent to express the opinion that it would be extremely detrimental to the interests of the cotton trade generally, and more particularly, perhaps, to those engaged directly and indirectly in the production of the cotton crop, to take away by legislative enactment the privilege to buy and the privilege to sell a contract for the delivery of cotton at some future time, and I hope that what I shall have to say on this subject during my appearance before you may assist in bringing the committee to the same conclusions.

I am engaged in business of this character, as well as in that of spot cotton, and therefore this opinion may be considered as biased, but, nevertheless, it is given with utmost sincerity.

I have reason to believe that I represent the views of the majority of the membership of the New York Cotton Exchange in desiring the same modifications and changes in the contract now existing as the general public seems to demand, and my purpose in accepting the invitation to be present at this meeting is to impart this belief to the committee.

We insist that our contract shall be so constructed as to remove excuse for charges that are being so generally made against the New York Cotton Exchange as a body (many of these charges very serious), and which perhaps are considered as reflecting upon the integrity of every individual member of it, and therefore we naturally feel the injustice of this.

The stockholders of any corporation—and the New York Cotton Exchange is a corporation—may be, to some extent, responsible for the acts of its administration, but individual stockholders should certainly not be considered as open to censure if they can show they do not approve of some of the policies of those in control, and this is

the situation that exists at present in the New York Cotton Exchange.

No permission to exercise discretion should be allowed, such as is taken by the revision committee, at their two annual meetings, on so vital a matter as the adjusting of grade differences, especially as upon their action in that respect mainly depends the value of the contract to the planter, the spinner, and the exporter.

This committee is, in great measure, a law unto itself, and proof of this can be had in the correspondence that will be found in the Report of the Bureau of Corporations of May 4, 1908, on pages 87 and 88, to which I call particular attention. Therefore, responsibility for the character of the contract mainly rests with that committee.

The duties performed by them, twice yearly, are to declare the rates or differences—nothing else, but that declaration means substantially as follows: That between one committee meeting and the next, each grade above middling, the buyer of the contract must pay for, at a fixed premium, and the grades below middling at a fixed discount, at any time within a period of two months in one instance, and within a period of ten months in the other instance, regardless of what may be their commercial or market value, in their relation to middling, during those periods. As the November announcements of the committee have, for some years, shown at the time an overvaluation of most or many of the grades, compared with their actual market value, in their relation to middling, to this, and the effects therefrom, is generally attributed the reason for bringing about this present investigation, as well as those conducted by the Bureau of Corporations, and because of which latter, the bureau claims that a commercial or market-value contract is the only alternative for the New York Cotton Exchange. The remedies to apply in giving the trade what it wants, and must have, in these respects, are quite simple, from my point of view, and I shall present them for the consideration of the committee.

The CHAIRMAN. Mr. Violett, have you any further statement to make?

Mr. VIOLETT. I should like to read to you the correspondence to which I have referred as to be found in the report of the Bureau of Corporations of May 4, 1908, on pages 87 and 88.

The writers of this correspondence are the most prominent people in the cotton trade, not only in this country but abroad. On November 19, 1903, they wrote to the chairman of the revision committee as follows:

PHILADELPHIA, *November 19, 1903.*

Mr. GEORGE BRENNECKE,
Chairman Committee of Revision,
New York Cotton Exchange, New York.

DEAR SIR: Will you kindly advise us your understanding, as chairman of the committee of revision, as to the basis on which the differences between grades should be fixed by the revision committee? That is, what facts should be considered by them? One of the members of this firm is a member of the revision committee, but we request a statement from you as to your interpretation of how the differences should be arrived at. We desire to know whether or not his ideas, which are the same as our own, are in accord with your understanding of the duty of the committee in determining what is to govern them in fixing the differences. It is only fair to the members of the committee that the facts which are to govern them should be known to the members of the exchange.

Yours, truly, GEORGE H. MCFADDEN & BRO.

To that letter Mr. Brennecke wrote as follows:

NEW YORK, *November 20, 1903.*

Messrs. GEORGE H. McFADDEN & BRO.,
Philadelphia.

DEAR SIRS: In answer to your yesterday's favor I beg to say that in my understanding the duties of the revision committee are the same as those of any other committee, or, in fact, of any officer or the board of managers of the exchange. That is, the welfare of the exchange should be considered only, and no measure should be entertained for individual interests.

Very truly, yours,
GEORGE BRENNECKE.

I have already said that this committee is in great measure a law unto itself, and proof of this can be had in the correspondence I have just read.

Now, that correspondence was referred to the president of the exchange, as follows:

PHILADELPHIA, *November 23, 1903.*

Mr. ROBERT P. McDOUGALL,
President New York Cotton Exchange, New York.

DEAR SIR: We most earnestly request a ruling by the board of managers as to what, under section 72*a* of the by-laws, shall be considered as governing the committee on the revision of spot cotton in fixing the differences between grades under that section.

This section (72), after giving particulars and the time of meeting, states:

"The committee shall on the day of meeting consider the report of the committee on spot quotations, and suggestions and opinions presented by members, whether in writing or verbally, and establish differences in value of all grades on or off as relating to middling cotton, which shall constitute the rates at which grades other than middling may be delivered on contract."

The particular point that we request a ruling upon by the board of managers of the New York Cotton Exchange is as to whether, under section 72, it is understood that these differences shall be annually fixed in accordance with the commercial value of the same grade in the South and their selling value to spinners, due consideration of the weather conditions which have existed and are existing, as they may affect future values in connection with that portion of the crop still to be picked, or whether the committee may establish differences between the values of the different grades as they may deem best without being controlled by the commercial values.

I may say, by way of parenthesis, as they have been doing all these years, namely, without being controlled by commercial values.

We, in this letter, make no plea for any particular method, but we earnestly request that the board of managers make a ruling upon this question. We consider it quite as necessary a decision for the exchange to make as any which would govern transactions in futures, also a vital question as affecting the business of the cotton world, which now and in the future may be based upon the New York quotation.

I should like to say just here that these men are the largest exporters of cotton, they are the largest buyers of cotton, and there is no firm, individually or collectively, that would know as much or more as to the importance of fixing the commercial value upon the grades as this firm.

It will certainly have a bearing upon the merchant business in the future, and as cotton merchants we desire to know the facts.

In connection with our request we attach herewith copy of letter addressed to the chairman of the committee of revision, together with copy of his reply, which to our minds fails to specifically answer the question addressed to him, although the last clause of his reply, reading "that no measure should be entertained for individual interests," with which sentiment we are heartily in accord, would indicate that the differences are to be governed by the commercial values of the grade, as only uncommercial or artificial differences can be considered as favoring special as against general interests.

Yours, truly,
GEORGE H. McFADDEN & BRO.

Now, gentlemen, the inference to be drawn from that is that as long as that committee has been governed, as they say here, by uncommercial or artificial differences, then those artificial differences have been favoring special as against general interests. That has been the basis of my agitation of this matter for four years. There is no more right or power delegated to the revision committee to do the things they do in exercising discretion than you, except that you are not a member of the exchange, and they are. They simply arbitrarily get together and fix these differences. For four years I had sent a committee before each meeting with quotations from twelve or more principal southern markets, showing the average premium and discount on cotton above and below grade, and they have disregarded it.

It is the revision committee that has caused this trouble, the action of that committee delegating to themselves the power to fix a difference, which McFadden says is artificial. In November, 1909, I produced a telegram showing an average premium on good middling at the principal markets in the South of 30 to 31 or 32 points. I believe the premium was 50 points, but they reduced it only to 44. Why? What right had they to do that? Mr. Smith goes over that very question, and goes into it elaborately. Why should anybody take upon themselves as a member of the committee to go contrary to the facts, when, as McFadden says in his letter, it is an uncommercial or artificial difference? What does he do? He does the very thing Mr. Benning has called attention to.

The CHAIRMAN. I understand from what you have said that your chief ground of complaint against the practice in the New York exchange rests upon the manner of fixing the difference in the grade of cotton.

Mr. VIOLETT. Not alone; that is primarily.

The CHAIRMAN. Primarily?

Mr. VIOLETT. Yes, sir.

The CHAIRMAN. I understand you to say that you have reason to believe you represent the views of the majority of the membership of the New York Cotton Exchange. If you do represent the views of the majority, or, to put it another way, if the majority is of the opinion that the system which you have been criticising is wrong, why have they not changed it?

Mr. VIOLETT. You must ask the gentlemen who appear before you.

The CHAIRMAN. Does not a majority of the membership of the New York exchange control that exchange?

Mr. VIOLETT. They should. Now, Mr. Chairman, the majority of the sentiment of the New York Cotton Exchange must be in favor of a fair, square, commercial, market value contract; that stands to reason; you can not get away from it. But they have no voice in the formation, in the appointment, of the revision committee. That is a matter simply in the hands of the board of managers and administration. You ask if the majority does not control. It should control, but we can not get the votes in sufficient number to elect a ticket opposed to the regular ticket in each year. We did it in 1907, but have not been able to do it since.

The CHAIRMAN. The continuation of the present system promotes pure speculation, does it not, and takes the market further and further away from the spot business?

Mr. VIOLETT. That is a little bit intricate. I will tell you. The contract that we have now prevents a greater amount of legitimate buying and selling by the spinner——

The CHAIRMAN. Exactly.

Mr. VIOLETT (continuing). Than the present contracts permit. I do not need to say that. Anybody can see it. I will tell you why the spinner does not buy a contract to a greater extent than he does. He may buy a contract to hedge himself temporarily, but he can not buy a contract to take the difference in the grades, because if he takes the grades in the delivery of cotton he would have to take them on artificial differences, he would have to take them at differences of greater premiums than he could buy the same grades for in the South in their relation to middling. So that that question answers itself. No spinner is going to be fool enough to go and buy on the New York Cotton Exchange and pay 44 points for good middling when he could buy the same cotton in the South and pay 33. That is the point.

I am defending the New York Cotton Exchange as a body. I am a member of it. I am standing up for its dignity and its traditions, because it is a body of men as to the integrity of whose individual members there can be no question. And I am only and solely striving, to the best of my ability, to educate the members of the New York Stock Exchange in regard to those conditions described by Mr. McFadden.

Mr. LEVER. I would like to ask you whether or not the New York Cotton Exchange has not been abandoned to a large extent as a hedging market?

Mr. VIOLETT. I could not say that, because I do not do enough business of that kind.

Mr. LEVER. That would be the natural result, would it not, if the criticism you make is well founded?

Mr. VIOLETT. I am sure the spinners are buying contracts from time to time as a hedge, but what they did in 1906, following the revision committee figures of 1906, their hedges went one way, and spot cotton went the other way.

Mr. LEVER. But when that is likely to happen, the spinners are not very much given for hunting that sort of market, for hedging?

Mr. VIOLETT. Naturally not; why should they? They do it to some extent.

Mr. LEVER. I realize that.

The CHAIRMAN. But if that is true, as I understand you to say, that on account of the character of the contracts, on the New York Cotton Exchange, the spinners are coming there less and less, not only for spot cotton but even for their hedging, does it not follow that the market is becoming more and more a purely speculative market?

Mr. VIOLETT. As long as cotton is not bought by the spinner—if the contracts were bought by the spinner, and he would buy it if he had a commercial contract, it follows that the contract would be given a stability it has not now.

The CHAIRMAN. That is not the point of my question. What I was asking your opinion about was this: If the contract is of such a character that men desiring to buy spot cotton avoid the market, does it not follow that the market becomes more and more a purely speculative one?

Mr. VIOLETT. I should say, by the character of the contract, if not commercial differences, I should think it would.

The CHAIRMAN. Is it not barely possible—and I ask this question without reflecting upon any member of the Cotton Exchange—that the reason you have not been able to bring the majority of the exchange to your way of thinking, or at least to act at a given time along the line of your suggestions, has been that a majority of the members of the exchange would rather have it a speculative market, pure and simple, than a market of another character?

Mr. VIOLETT. The majority of those voting?

The CHAIRMAN. Yes; the majority of those voting.

Mr. VIOLETT. Now, Mr. Chairman, the very large portion of our members do not understand this question at all.

The CHAIRMAN. It is certainly time they were being educated.

Mr. VIOLETT. They do not understand it. I think a great deal of my literature has gone to members of the exchange, and I have given a whole lot of it. I have done my best. No man ever did more. I may say this: If I had been appointed specially by the New York Cotton Exchange to present conditions that would be for the best welfare of the Cotton Exchange, from the point of view of a commercial contract and to do away with uncommercial conditions, I could not have done more than I have. I have given my best efforts. Therefore I appear before your committee in the absolute confidence, as I said in the beginning, that after an experience of many years I believe the taking away of the privilege to buy and sell a contract for the delivery of cotton would destroy this business. I say it because of my knowledge of the business, and I have been in all phases of it. The sore spot here is not the exchange itself; it is the committee that delegates to itself powers to do the things they do year in and year out.

The CHAIRMAN. Can you suggest a way in which Congress can reach that committee?

Mr. VIOLETT. That is for the committee, Mr. Chairman. That these conditions can continue, that 17 men can get together and say that these shall be the premiums and these shall be the discounts, regardless of the market value of the grades in their relation to middling, is an impossibility. There must be some way to stop it.

Mr. LEVER. Do you still entertain a hope of reform along these lines?

Mr. VIOLETT. It depends on who gets the majority in the New York Cotton Exchange. As long as the conditions continue as at present I see no hope of changing.

Mr. LEVER. How long has the present condition existed?

Mr. VIOLETT. I will produce the exact figures later.

Mr. BEALL. What effect did it have on trading on the New York Stock Exchange when in last November a difference of 44 point was fixed, when the real commercial difference was 33?

Mr. VIOLETT. I do not know that it had any. At the same time, there was an advantage to the man who delivered cotton. Why should a man deliver at 33 points when he could turn around and sell it at 44? It created a condition by which the seller of the contract would be given an advantage of 11 or 12 points, to the corresponding injury or loss to the man who received it, who took it.

Mr. BEALL. Did it have any effect upon the hedging contracts?

Mr. VIOLETT. I can not say that.

Mr. BEALL. What effect did it have on the cotton trade generally—the differences that were fixed in 1907, and what would you think about that operation?

Mr. VIOLETT. I am too full for utterance. All you have to do, gentlemen, is to read the report of the Bureau of Corporations. I could wax eloquent on that subject, but——

Mr. BEALL (interrupting). Do you think the report to which you refer correctly stated the situation?

Mr. VIOLETT. I will say this, that the revision committee had absolutely no basis for fixing the differences they did at the time, considering the facts they had before them, especially on the low grades. Either myself or the superintendent of the New York Cotton Exchange produced the evidence as to the quotation of the leading southern markets on the low grades at that time. They had that before them. I am not trying to bring up ancient history, but we are confronted with a situation that is the result of a continuation of an abuse of power, the taking of a discretion which the by-laws do not permit and which the board of managers should never have allowed. It has been taken arbitrarily.

Mr. BEALL. What other criticisms, if any, have you of the system which prevails upon the New York Cotton Exchange?

Mr. VIOLETT. I object to their method of fixing differences.

The CHAIRMAN. Would you have them fixed more frequently?

Mr. VIOLETT. Suppose they start out in November with commercial differences. They are just as likely to be wrong later on, starting out with commercial differences, as they would be starting out with uncommercial differences. The only claim that I have ever heard made by the revision committee of the exchange, or the administration, in favor of a continuation of these methods, is that when they put on an excessive premium or an insufficient discount, in the course of the season sometimes those premiums established in November and those discounts established in November, will prove to be correct. That is the basis. It was not my purpose to go into ancient history, but as long as I have been asked the question I will go into it. The only history I would bring up in this connection is the correspondence of 1903.

Now, the good ordinary grade, up to the meeting in November, for the ten months ending November, 1906, by the New York Cotton Exchange was 100 points. When that committee met, the average discount all over the South at the principal points was about 170 points; at New Orleans, I think, it was 190 points. They increased the discounts by 25 points, and there were five men on that committee who did not want to make any at all. As I say, the only argument I have ever heard used as to why an excess of premium or an insufficient discount should be put on contracts established in November is that some time within the next ten months those differences will prove to be correct. In November, 1906, following that September storm in the South and throughout the Mississippi Valley, everybody knew that there would be a superabundance of cotton, and those impressions were correct. During the winter of 1907 good ordinary cotton sold at Galveston and Houston and other points at 250 points below middling, and still the discount in the New York market continued at 125 points until December. Therefore the claim that some-

times this might prove to be correct was in that instance not proven. It did not work that way. That is just to show you the fallacy of putting a fixed discount for a fixed period of time, especially when starting out wrong.

Then, the question of differences varies in any spot market. You have several gentlemen here from the South on the committee, and they know it. They know the premiums on good grades and the discounts on low grades, below grade, and the character of the crop after November.

For years those in favor of the present manner of fixing differences have given their reasons for their position, and are entitled to their opinion; but the facts are against them. There is only one way. I will submit it to your committee during the day. I do not want to take up all of your time now.

New Orleans has never had anything else but a frequent revision. It does not mean they are going, necessarily, to change them arbitrarily simply to readjust the differences, the premiums, and discounts in relation to middling as the season progresses if it becomes necessary. That is all. Why there should be any objection to so reasonable and so commercial a way of conducting the manner of delivering cotton on contract is absolutely beyond me.

Mr. ARTHUR MARSH (of the New York Cotton Exchange). Mr. Chairman, I simply desire to clear the record up a little bit by asking Mr. Violett what rule or principle he thinks should be imposed upon the revision committee of the New York Cotton Exchange in determining differences in value of the different grades of cotton to be delivered on contracts?

Mr. VIOLETT. I have it prepared and will submit it to the committee during the day.

The CHAIRMAN. Why could you not submit that right now, while you are on the stand?

Mr. VIOLETT. I will read what I have prepared in relation to that:

PROPOSED AMENDMENTS TO THE BY-LAWS OF THE NEW YORK COTTON EXCHANGE.

1. Require that the grades deliverable on contract for the New York and New Orleans cotton exchanges shall correspond, and to secure similar types, that an expert cotton classer be selected by each exchange, and a third to be selected by them, to constitute a board in this respect; this board to meet once yearly, say, October 1.

2. Eliminate from delivery on future contracts all stained cotton below middling in grade, and all tinged cotton below low middling; therefore only one of stained and only one of tinged, as a delivery on contract.

I would like to ask Mr. Marsh how many grades of stained and tinged cotton we have now?

Mr. GEORGE W. NEVILLE (of the New York Cotton Exchange). That is the limit of the contract deliverable in New York to-day [exhibiting paper to the witness].

Mr. VIOLETT. Have you gentlemen a copy of the daily report of the New York Cotton Exchange?

Mr. NEVILLE. That is it, and it has been so since 1908.

Mr. VIOLETT. That is 1908?

Mr. NEVILLE. It is the same thing to-day. The committee has the last one, the 24th of February, which it had in its possession, which shows the same grade. Low-middling tinge is the lowest grade deliverable; just what you asked for.

Mr. VIOLETT. We have strict low-middling tinge, and low-middling tinge, and middling stained. Mr. Neville, as I understand, says that this is the same as now. But here are two, and there are three. It may be that the tinges and stains that I have in mind are those above middling; I am referring to the grade below middling, middling and below.

Mr. LUITPOLD MANDELBAUM (of the New York Cotton Exchange). I would like to ask whether Mr. Violett admits those are the grades deliverable on contract?

The CHAIRMAN. He stated that from his understanding there were three grades deliverable instead of two, as stated by Mr. Neville.

Mr. NEVILLE. He stated there were strict low-middling tinge and low-middling tinge and middling stained; and that is exactly the condition to-day. It has been so since 1908.

The CHAIRMAN. Mr. Neville wants to know whether you concede that the contract upon which cotton is deliverable now in New York is exactly what you have just outlined?

Mr. VIOLETT. As to stained and tinged cotton?

The CHAIRMAN. Yes.

Mr. VIOLETT. I do not want to place myself in the position——

The CHAIRMAN. Really, while this is interesting, it is not directly germane to the matter we have under consideration. There is no bill pending before this committee which undertakes in any way to alter or amend the rules of any cotton exchange.

Mr. VIOLETT. No; but you asked me if I had any suggestions.

The CHAIRMAN. I understand; and we are very glad to have your opinion.

Mr. VIOLETT. I am differing from Mr. Neville, and the production of this shows I am correct—no; I stand corrected. He is right.

The CHAIRMAN. I see that your remedies refer entirely to changes in the present rules and practices of the New York Cotton Exchange.

Mr. VIOLETT. Exactly. As to the stains and tinges, Mr. Neville is correct, and I am incorrect.

The CHAIRMAN. But, as I said just now, that is a matter the committee does not care to take the time to go into, because no bill is pending relating to it at all.

Mr. VIOLETT. I do not contradict Mr. Neville; I admit that he was correct. Now, I am simply defining what should be put into the by-laws of the cotton exchange as deliverable on contract in connection with grades of that character.

Mr. MARSH. I do not know whether or not this is an appropriate time to bring it in, but I have understood that Mr. Violett's position has been that a rule or principle should be laid down to the effect that the revision committee of the New York Cotton Exchange must fix its differences at the average of the differences of a certain number of southern markets. That point is of some importance, because I understand that the Commissioner of Corporations in his report tells us that if we were so to fix our differences, the New York Cotton Exchange would be free from criticism. In that particular I understand that Mr. Violett coincides with the Commissioner of Corporations and the Commissioner of Corporations coincides with Mr. Atwood Violett.

I had hoped to get on the record, from Mr. Violett himself, a statement of this principle which he thought ought to be imposed

upon the revision committee, and bearing on that point I had brought down with me figures showing the differences which existed in various southern markets at the time of the revisions in New York from November, 1906, down to the present time. I do not want to encumber the record with this, if the committee does not feel the matter is of importance. Perhaps its greatest importance arises from the fact that the Commissioner of Corporations has suggested that this method of fixing differences is the only proper one for us to follow.

The CHAIRMAN. If I do not speak the sentiment of the committee in what I shall say in response to Mr. Marsh, I wish any gentleman would correct me. My impression would be, Mr. Marsh, that it would not be necessary for your figures to go into the record, or for us to pursue at greater length the question as to any change that ought to be made or might be made in the rules or principles guiding the New York or any other cotton exchange, for the reason that we do not pretend to have any right to go into a State and dictate what the rules of an exchange shall be. No bill presuming to exercise such authority is pending before the committee. It is a matter of interest in general discussion of the subject, but I do not believe it is germane to this particular question.

Mr. LAMB. I think you are correct, that it is not at all germane.

Mr. MANDELBAUM. May I ask one question?

Mr. VIOLETT. I would like to be allowed to go on without interruption. These gentlemen will have their day in court when I get through.

The CHAIRMAN. I was just stating to Mr. Marsh that the committee does not care to go into any matter which relates to the internal government of any cotton exchange. We have no bill here presuming or undertaking to change in any way the rules or principles by which these exchanges guide their business. The bill we are considering is one to prohibit the transmission of messages relating to future contracts in cotton, wheat, and other farm products in which there is no delivery intended; and therefore we do not care to consider a matter which is entirely outside of that question. We would be very glad to have your opinion upon the advisability of such legislation.

Mr. VIOLETT. The point I want now to impress upon you is that I thought there were more grades than two on tinges and stained cotton.

The CHAIRMAN. That point was not further disputed, and the committee does not care to go into that further, for the reason, as I have said, that we are not attempting to alter or amend the rules of the exchanges. That is entirely beyond our province.

Mr. VIOLETT. What I desire to do is to read this with my statement. Let me go over it again.

2. Eliminate from delivery on future contracts all stained cotton below middling in grade, and all tinged cotton below low middling; therefore only one of stained and only one of tinged, as a delivery on contract.

Make strict good ordinary the lowest grade deliverable on contract, instead of good ordinary, as the lowest grade deliverable, as at present.

There is nothing more important in the formation of the contract than that; that is, in the formation of a commercial contract. Those from the South on your committee know what good ordinary cotton

. They know the general run of it. They are not experts, but ley have a general knowledge; and they know that a strict good rdinary grade should be the lowest grade tenderable on a contract ther at New York or New Orleans.

The CHAIRMAN. Mr. Violett, when we asked for your remedy we oped that it might be something within the province of Congress, ut since we see that it is not the committee does not care to follow le matter any further. We will be glad, however, to have any oinion you care to express as to the advisability or inadvisability of le bill which I just described to you; but we would not care to fol-w any other line of discussion.

Mr. VIOLETT. Would you like me to leave this with you?

The CHAIRMAN. Yes; we would be glad to have it.

Mr. VIOLETT. Now, I would like to ask Mr. Marsh a question. I d not intend to ask any questions, but as long as Mr. Marsh makes e inquiry I shall reciprocate. I have here a circular I addressed members of the New York Cotton Exchange in the summer of 1908:

You have been advised as members of the New York Cotton Exchange that at a eting of the board of managers, on July 20, there was adopted substantially the lowing:

Whereas complaint has been made that the present contract for the future delivery cotton, under the by-laws and rules of said exchange, is open to criticism in some rticulars; and

Whereas the Bureau of Corporations of the United States Government, in its recent port of the results of its investigations of the cotton exchanges of this country, while phatically upholding the necessity of such exchanges, and particularly the neces-y of the contracts for the future delivery of cotton as made on the New York and w Orleans cotton exchanges, has suggested certain changes in the by-laws and es governing the future contracts of the New York Cotton Exchange; and

Whereas it is the opinion of the board of managers, for reasons therein stated, refer-g in this connection to section 3 of the charter of the New York Cotton Exchange, it it is incumbent upon the board of managers to give the most careful attention d consideration to the opinions and suggestions of its members, with the view of ertaining what changes, if any, in the by-laws and rules governing the future ntract of the New York Cotton Exchange are required;

It was resolved that a committee of 7 members of said exchange should be ap-inted to act on the resolutions hereinafter referred to. This committee has been pointed, and of which you also have been advised. Among the resolutions under iich they are to act are the following:

(1) Ascertain in every way possible the opinion of the members in regard to the isting methods of revision of grade differences and submit to the board of managers a meeting to be held not later than September 1, 1908, suggestions for alterations the by-laws and rules, having in view an improvement in the present system of vision.

The members of that committee were A. R. Marsh, Richard Sie-nburg, L. Mandelbaum, Charles W. Lee, S. T. Hubbard, George W. eville, and George Brennecke.

One of the resolutions was this:

(5) Present to the board of managers the results of the inquiry in the form of a an or alterative plans for the amendment of the by-laws and rules governing future ntracts on the New York Cotton Exchange, such plan or plans to be based on the inions as expressed in the testimony before the committee, but with due considera-on of the interest of the members of the exchange as a body and of the duties of the change as expressed in section 3 of its charter.

The second resolution is as follows:

(2) Make an investigation as complete as possible of these opinions and suggestions persons interested in the contract for the future delivery of cotton on the New ork Exchange, including cotton producers, spinners, merchants, and commission uses.

Now, Mr. Chairman, Mr. Marsh has interrupted me to ask me a question, and I want to sak him a question, and the only way I can get at it is to read this to you, as irrelevant as it may be, considering the purposes of this investigation. Therefore, I hope you will let me finish.

The CHAIRMAN. Proceed.

Mr. VIOLETT (reading):

Ascertain in every way possible the opinion of the members in regard to the existing method of revision of grade differences and submit to the board of managers at a meeting to be held not later than September 1, 1908, suggestions for alterations of the by-laws and rules having in view an improvement in the present system of such revision.

They have never made a report, and there are three members of that committee present here to-day.

The CHAIRMAN. The point of order is made that this statement which you have been making, and which I presume is preliminary to a question, refers to a matter which is not pending before the committee.

Mr. VIOLETT. But, Mr. Chairman, Mr. Marsh asked me a question and I am simply asking him a question.

The CHAIRMAN. Will you please ask the question, and then we can determine as to its relevancy.

Mr. VIOLETT. I want to ask Mr. Marsh why this committee on revision has made no report to the members of the New York Cotton Exchange on any of the matters which were brought up, except a preliminary report?

Mr. MARSH. The committee has been investigating this matter and is still investigating the matter. The committee found itself face to face with much more serious questions than you or any of the gentlemen who have been freely talking about the subject had any idea of. The committee has realized its responsibilities, as many of the members of the exchange have not. The committee has not been willing to make a report until it had sifted the matter to the bottom. The committee felt that, inasmuch as the New York Cotton Exchange was under fire; inasmuch as the tendency of the testimony before the committee was contrary to the recommendations of the Commissioner of Corporations; inasmuch as the committee was sure to be attacked by you, sir, when it made its report——

Mr. VIOLETT (interrupting). That is incorrect, and I deny it. You have no right to make any such statement to me.

Mr. MARSH. I withdraw that statement, then. It was important that the committee should sift the matter thoroughly to the very bottom and have indisputable evidence for anything they might recommend.

Mr. VIOLETT. My reply is this: The New Orleans Cotton Exchange had a special committee appointed for the same purpose in October, 1908. They made their report in February, 1909, and I would like to ask Mr. Thompson, or any of the members of his committee, to-day, to state what they did in that same particular.

Now, why has it taken the New York Cotton Exchange committee of 7 eighteen months to do what the New Orleans Cotton Exchange did in five months? That is what I would like to know.

Mr. PLUMLEY. Do you approve or disapprove of the legislation proposed in the Scott bill relative to the prohibiting of the use of

the mails or telegraph in transactions on the cotton exchanges where delivery or receipt is not intended by the parties to the transaction?

Mr. VIOLETT. Absolutely not.

Mr. PLUMLEY. You do not approve?

Mr. VIOLETT. Absolutely not. Now, Mr. Marsh has made a statement before your committee——

The CHAIRMAN. The matter which you brought up between yourself and Mr. Marsh is one that relates wholly to the internal management of the New York Cotton Exchange, and the committee does not care to go into it at all.

Mr. VIOLETT. As long as he makes a statement before your committee and gives the reasons here why they have not made a report, I show you that the New Orleans Cotton Exchange appointed a special committee for the same purpose in October, 1908, which made its report in five months. What I would like to know is, if this committee appointed by the New Orleans Cotton Exchange can make a report on this subject in five months, why it is that in eighteen months the committee appointed by the New York exchange has made no report.

The CHAIRMAN. You have made that statement, and I have permitted it. We understand it. The gentlemen from the New Orleans exchange are here to-day and will be able to answer for themselves. Unless you have any further statement to make, we will excuse you. We are very much obliged to you.

Mr. MANDELBAUM. Mr. Violett made one statement which I would like to put on record, and that is when he started out he made the claim, or a positive statement under oath, that he represented a majority of the members of the New York Cotton Exchange. I dispute that fact, and I want him to state his authority for that assertion.

The CHAIRMAN. He qualified the statement in response to a question of mine. I do not think the record is badly wrong.

I believe that Mr. Thompson, of the New Orleans Cotton Exchange, is present this morning, and if so we will be very glad to have him make such statement as he may desire.

Mr. BEALL. Before he begins, I would like to know, as a matter of fact, whether under the rules of the New York Cotton Exchange a mere majority can make such a change as has been under discussion.

Mr. MANDELBAUM. No, sir.

Mr. BEALL. It takes two-thirds?

Mr. MANDELBAUM. Yes, sir.

Mr. BEALL. Then, Mr. Violett's statement might be correct, that a majority was with him and still a change could not be made?

Mr. MANDELBAUM. Yes, sir; but there is one thing in connection with that, and that is that a majority of the members of the exchange elects the president, vice-president, and board of managers, and if that board of managers, or rather the management of the exchange, is considered antagonistic to the majority of the exchange, as stated by Mr. Violett, that could not be the case. If the case were as he states, that board appoints the revision committee on which he lays so much stress, and if the case was as he states, that he represents a majority of the exchange, there would have been absolutely nothing that could have prevented them from going into the office and turning those men out, of whom he complains as having been on the board for two or three years.

It is an important point in the matter that the by-laws of the exchange can only be enacted or changed by a two-thirds vote.

The CHAIRMAN. I had not noticed that the hour of 12 had been reached and passed, and therefore I will ask Mr. Thompson to defer his statement until the afternoon session.

(Mr. Violett submitted three letters which will be found in the appendix.)

(Thereupon, at 12.10 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee met at 2 o'clock p. m., pursuant to the taking of recess.

TESTIMONY OF MR. W. B. THOMPSON, PRESIDENT OF THE NEW ORLEANS COTTON EXCHANGE.

(The witness was sworn by the chairman.)

Mr. THOMPSON. Mr. Chairman and gentlemen of the committee, the New Orleans Cotton Exchange thanks you for the privilege you have given it to appear before you and express the views of the exchange upon the general question of future trading, particularly upon the attitude and the manner in which future trading is conducted in the New Orleans Cotton Exchange. I have reduced to writing the discussion on this subject, as a basis, in order that I may not waste any time in discursive matter.

The New Orleans Cotton Exchange thanks you for the opportunity given it to protest against the passage of bills designed to destroy the system of trading in contracts for future delivery.

I hope I may be excused if, by way of introduction, I spend a few moments in explanation of my interest in this question. I am in the cotton factorage business. I make advances on the crop and sell consignments on commission. It is a spot business pure and simple. I have no pecuniary interest in any future brokerage concern, and if future trading is abolished it makes no direct pecuniary difference to me. On the contrary, if I took a selfish and shortsighted view of the matter I would say that I would be benefited by the prohibition of future trading. The development of the interior markets has been at the expense of the New Orleans market. The interior markets and the facilities that the producer enjoys of selling his crop at home are all dependent upon the existence of the future contract market. If the interior buyer could not hedge, he would not buy in any great volume. This for two reasons. He could not afford to take the chance of a decline pending the time he could get the cotton to market. He would not be able to secure the money with which to pay for the cotton if he carried that cotton open and without any protection against a decline. Thus if the future contract market was abolished and buyers were unable to buy in the interior, the result would be that much more cotton than now comes would then come to New Orleans for sale. This would necessarily increase the number of bales handled by the factors. If, therefore, I took a selfish and a superficial view, I would be in favor of abolishing future trading. But in the larger consideration of the question, I reach the other conclusion. All I have is invested in the farmer and the crops and in cotton lands. If future trading was abolished, what I would gain

in commissions from handling more cotton would be more than offset by what I would lose in the value of my accounts and what lands I own. I am convinced that if you destroy the future market you will decrease the amount realized by the farmer from his crops. From motives of self-interest, therefore, and from sentiments of patriotism, I am against any measure that will bring about this unhappy result.

MOTIVE AND OBJECT.

We have in mind the pernicious effects and the disastrous results of the mania for speculation that during the past few years has swept this country. We are well aware that the motive behind the anti-future legislation of the several Southern States and the motive behind similar legislation here proposed proceeds from a just condemnation of the evils of excessive speculation. At the outset it is our earnest desire to make it clear, definite, and emphatic that we oppose no legislation that is directed against the evils of speculation. On the contrary, we not only appreciate the essential wrong of the abuses of speculation, but we realize that these same abuses are gravely detrimental to the legitimate cotton trade for which we stand and which it is our mission to conserve. We are not in opposition to any effort to purify and improve any system of trade, but are in earnest sympathy and cooperation with all such efforts. Our object in appearing before you is not to obstruct reform, but to point out to you the truth, very plain to us, that such legislation as is here proposed would not accomplish the good results intended. We are intent upon showing you that this proposed legislation is sweeping and not discriminating, and if enacted into law would, while destroying the evil, also destroy the good which is by the evil already assailed, and would result in concrete disaster to the most important interest of the South and one of the greatest and most comprehensive industries of the world. We desire to show you that the benefits of legitimate future trading are inherent and vital, while the evils that have become associated therewith are incidental and parasitic; that the evil and the good may be clearly differentiated, and that it is entirely feasible to cast out the evil and retain the good, not only without injury to the latter, but with great benefit thereto.

We shall first ask you to consider the nature of the legitimate contract for the future delivery of cotton. We shall then call your attention to the place that this contract occupies in the economy of the entire cotton trade and point out its specific beneficial functions which entitle it to its place therein, and finally we shall specify the abuses that have been practiced under the name of future contract trading and suggest the remedies therefor.

THE FUTURE CONTRACT.

A contract for the purchase and sale of cotton for future delivery is not a vicious invention by means of which the parties thereto can sell or buy the farmer's cotton at a price fixed by themselves, without the consent and in opposition to the wishes of the farmer, as is by many persons believed. Nor is it a mere gambling memorandum without any substantial basis of promise and penalty, as many seem to suppose it to be. It is simply an obligation entered into by the two parties thereto that the one will deliver and the other will receive

a certain number of bales of cotton at a certain price and at a specified time. It is identical in principle with a contract for the purchase and sale of any other commodity or thing, or an obligation to do a certain thing at some specified future time. It shows the date upon which the trade is made, the number of bales of cotton bought and sold, the price to be paid per pound, the time of delivery, the terms and conditions agreed upon by both buyer and seller, and is signed and secured and delivered by the parties thereto or their agents. When thus drawn, signed, secured, and delivered, the contract is enforceable, not only under the rules of the exchange in which the same is made, but in the courts of law. The contract thus becomes an item of personal property which the owner may hold, and at maturity demand and enforce specific performance of its terms, or if he finds some one who wishes to assume his place in the contract, he may, if he so desires, transfer the contract to such person for whatever consideration he is willing to accept, just as he could transfer any other item of personal property. The transferee then stands in the place of the original party to the contract and assumes the latter's rights or obligations, and can hold and demand performance, or negotiate the contract to another party as in the first instance. There is nothing nefarious or spurious about the legitimate contract for future delivery. As an item of property it is as valid as a promissory note and, under different rules, as lawfully transferable. We will ask, therefore, for the sake of following our argument and appreciating our point of view, that you consider the contract for future delivery as a contract, legal and binding and transferable, as it truly is, and not as a knavish invention or a memorandum of a bet, either or both of which, unhappily, a number of earnest but uninformed or misinformed persons assume it to be. If we thus consider the future contract itself and disassociated from the abuses that are ascribed to it, we will be able to form a juster estimate of its value and importance to legitimate business. After this just estimate has been fixed, we can more wisely and with less danger of doing harm, undertake to proceed against the abuses.

CONTRACT IS AN INSURANCE POLICY.

The contract for the future delivery of cotton is an intrinsic part of the modern system of marketing the crop and distributing the manufactured product. It is not an incident or experiment; it is an elemental factor. To the dealer in cotton and to the manufacturer of cotton goods it is an insurance policy, protecting him from loss by reason of fluctuations in price, just as his fire or marine insurance policy protects him from loss by fire or water. His fire or marine policy protects him from the loss of his property; his future contract protects him from the loss of his profits. His fire or marine policy protects his invested capital; his future contract encourages him to invest his capital. His policy insures the assets of his business; his contract insures the assets of his enterprise. Under this protection the cotton trade has grown to its present enormous proportions; upon the surety of this protection has been built the great modern system of forward trading, whereby the market has been broadened, production stimulated, and consumption enlarged. If the future contract should be suddenly eliminated from the American markets, our trade

system would be disorganized; both merchant and manufacturer would be cast from their long-used moorings adrift; the American traders, and the American traders alone, would be emasculated and bound, and our entire cotton trade would suffer the same in essence, differing only in extent and degree, what the general business of the country would suffer if suddenly all underwriters in America were prohibited from issuing policies of insurance, and all Americans were prohibited from securing this protection from those whose country permitted them to sell it.

If the future contract should be eliminated from the American markets, these evil effects would fall primarily upon the American trade and would force our traders to go without protection, or else to depend for such protection upon foreign markets, whose interests are the reverse of the producers' interests.

DANGER.

Such an interference with the cotton business would be destructive. When we consider that the cotton crop of the United States represents more than $600,000,000 of created value each year, and from the exports of this crop we receive annually $400,000,000 of foreign wealth in exchange; when we consider the tremendous amount of capital invested in the cotton manufacturing industry both in the North and South, and the hundreds of thousands of employees whose livelihood is dependent upon this industry; when finally we consider the vast army of cotton-land owners, producers, and laborers whose welfare is directly dependent upon the price of cotton and the stability of the market therefor, we must be impressed with our heavy obligation to regulate our courses by wisdom and prudence, lest we lay a reckless hand of hurt upon our people and our country.

BENEFITS.

We have made the statement that the future contract is a beneficial and even an indispensable factor in the modern cotton and cotton-goods trade, and that the elimination of such contract would be followed by serious and far-reaching injury. It is therefore incumbent upon us to apprise you of the reasons why this statement is true. We will not go exhaustively into the details of this relation, but will content ourselves with a brief review of the salient functions and operations of the future contract.

Future trading releases the producer from the disastrous alternative of carrying the surplus of the crop himself, or else of forcing it upon the spinner at the price fixed by the latter, because it makes possible and creates a demand intermediate between the producer and the spinner, and thereby provides a more even and gradual transfer of the crop to the spindle from the field.

Future trading sustains and enlarges the market for cotton and cotton goods, and thereby stimulates both consumption and production, because through such trading the dealer in cotton and the manufacturer of cotton goods may each provide himself with an insurance against loss by reason of the fluctuations of the market, and each is thereby encouraged to extend and press his business by soliciting orders, not only for the present, but to be filled in the

future. From these propositions follow the important corollary that future trading increases the price paid to the producer for his raw material and decreases the price of the manufactured product to the consumer thereof. The price to the producer is increased, because the protection afforded by the future contract enables the cotton merchant to bid for cotton a price in which is figured only his profit or commission, and he is relieved of the necessity of bidding a lower price in order that he may be protected against any decline in the market that might occur between the time he bought the cotton and time he was able to dispose of it. The price of the manufactured product is decreased to the consumer thereof because, by reason of the protection afforded by the future contract, the spinner can contract to sell to the cloth merchant who supplies the wearer of the goods, at a price covering only the cost of manufacture and the spinner's profit, without the necessity of adding thereto a sufficient margin of protection against an advance in the price of the raw material before he could provide himself with the same wherewith to fill his contract with the cloth merchant. Future trading used as an adjunct of the cotton business is not speculative; it enables the trader in actual cotton to avoid speculation, and makes his business stable and safe.

PRACTICAL OPERATION ILLUSTRATED.

The practical operation of the future contract under the foregoing propositions is illustrated as follows: The spinner solicits orders from the cloth merchant to supply the wants of the latter for a long period ahead. He has neither the goods nor the raw material in hand with which to fill the order solicited. The cotton which he proposes to spin for the order is probably not yet planted. The cloth merchant asks for the price at which the spinner will contract to deliver the goods at the times stated. The spinner consults the quotations of the future market for the several months and finds that he can buy contracts for the desired amount of cotton at certain figures. To these figures he adds the cost of manufacture, the expenses, and his profit, and names the resultant price to the merchant. When the contract between the spinner and the merchant is closed, the former gives his broker an order to buy future contracts for enough cotton to fill his contract with the merchant. When these future contracts are bought the spinner is protected, and it matters not to him or to the cloth merchant to whom he has sold, whether the price of the raw material advances or declines. As he needs the cotton he generally goes into the spot market and buys, for the reason that he can there make his selection and get the exact grade and staple desired. When he has thus made his purchase he orders his broker to sell his future contract, it having performed its mission of insurance. The broker sells the contract to some one who may be either a cotton dealer wanting the same protection that the contract has given the first, or a speculator who believes that the price of cotton will advance. If, on the other hand, future trading was not permitted, the spinner in the instant case would be deterred from contracting with the cloth merchant on the basis of the then price, unless he was willing to take a speculative chance that the price of the raw material would decline or would not advance. But the chances are that he would not con-

tract ahead at all unless at a price high enough to cover not only the cost of manufacture, expenses, and his profit, but also a supposable advance in the price of the raw material between the time at which he made his contract and the time at which he would be able to buy the cotton with which to fill the same. Future trading, therefore, broadens the market, increases consumption, and makes the price of manufactured article lower to the consumer.

Or take the case of the cotton merchant who buys from the producer and sells to the spinner. This merchant may solicit orders from the spinner for specific grades and staples for delivery in the future. The cotton which he proposes to deliver to the spinner might not yet be planted; yet, under the protection afforded by the future contract, he could name a price which on the market would cover his commissions and profit. When he closed the contract with the spinner he would protect himself against an advance in the market by buying a future contract. When the spinner was ready to take the cotton, the merchant would go into the market and buy the specific grades and staples, at the then market price, if he had not bought them already. When he had so bought the actual cotton the protective mission of the future contract would have expired, and he would sell it to some one who probably wanted to use it as he had used it. The producer reaps a share of benefit from the protective feature of the future contract in the imperative forward demand thus created for his cotton long in advance, possibly, of the planting of his crop.

Or take the case of the cotton merchant who had no forward contract with the spinner and no present orders for specific grades. He could still supply a market to the producer and pay the maximum price, provided he could protect himself with a future contract. He would consult the future market quotations, and would bid for the cotton a price which on these quotations would allow him his profit or commissions and a margin for expenses. If his bid were accepted, he would at once sell a future contract to cover the amount of his purchase, and hold the cotton in entire security until such time as his spinners came into the market again. Upon the sale of the cotton to the spinner he would buy back his future contract, its protective mission having expired. But if such merchant were prohibited from selling a future contract as a protection against his purchase of spots, he would not buy the spots unless he was willing to take the speculative chance that prices would advance. And he would not take the chance at all, unless he could buy the cotton at a price low enough to assure him not only of his commissions and expenses, but low enough to protect him against a supposable decline in price that might occur between the time at which he bought the cotton and the time at which he could place it with the spinner. Future trading therefore enlarges the demand for cotton, distributes the burden of carrying the surplus, and makes the price higher to the producer.

These are the elemental benefits of future trading conducted on legitimate lines. We have heard no denial, and there can be no denial, that these results follow legitimate trading. The beneficial office of the legitimate contract is not debated, and it is not debatable. The system is in danger because the good of it and the importance of it are overlooked or purposely ignored.

EVILS.

Up to this point we have asked you to consider only the good that is in future trading, and to refrain from passing judgment upon the good and evil in an indiscriminate admixture or average. We ask this because we are sure that by considering the good and the evil separately, we can arrive at a more accurate estimate of the nature and importance of each, and of the relationship between the two, and their dependence upon or independence of each other.

That there are evils in connection with future trading, and that iniquities and wrongs have been committed under the name and in the practice of future trading, we freely admit. We earnestly condemn these evils and wrongs. We are not only willing, but anxious, to join hands with all who are endeavoring to destroy these evils and correct these wrongs. We find no fault with the motives of the legislators of the several States of the South, nor with the motives of the gentlemen who are proposing the legislation here, in so far as these motives move toward the destruction of the evils and wrongs of speculation. But we do find fault with and oppose indiscriminating legislation which, in a laudable effort to destroy the bad neglects to take account of the fact that a great good is likewise threatened; which does not perceive, or refuses to perceive, that the two are easily separable, and that not only is it entirely feasible to destroy the evil without injury to the good, but that it is necessary that the evil shall be destroyed in order that the good may survive.

The evils that have become associated with future trading are three in number—the bucket shop, excessive speculation, and the uncommercial contract. These three abuses have brought the system into disrepute and have provoked the attack that is threatening the life of the system itself. The system is attacked not because the evils are inherent, not because the evils can not be eliminated without destroying the system, but because the aggravating character of the abuses has aroused a feeling of resentment so furious that for the time being discriminating justice has been blinded and silenced.

THE BUCKET SHOP.

A bucket shop is a place where wagers, not contracts, are made. Nothing is ever bought or sold in a bucket shop and no legal or enforceable trades are made there. It is a gambling proposition simple and without qualification. The keeper deals a game against his victims and what they lose he wins. Millions of bales of cotton may be ostensibly bought and sold in a bucket shop, with absolutely no effect upon the market or trade. The sole and only excuse for associating the bucket shop with the future-trading system is because the bucket shop has selected the fluctuations of the future market as the issues upon which it makes its bets. The sole and only responsibility of the future-trading system for the bucket shop lies in the remote suggestion that the former, in legitimate business conduct, makes quotations which the latter steals and manipulates for the purpose of fleecing its victims. No legitimate trader or decent merchant willingly tolerates the bucket shop. Unfortunately, because of a misunderstanding of the nature of the bucket shop and because

of the adroit efforts of the keepers thereof, for self-protection, to muddy the waters and confuse identities, many persons erroneously and unjustly call by the name of "bucket shop" any place where future trading is conducted, and give the rankest bucket shop the name of "exchange."

The remedy for the bucket-shop evil is simple. The bucket shop is not a part of any system or business; it is a distinct and characteristic institution. It is easily defined and located. A direct law would reach it and pluck it up and cast it out of the State or Nation without injuring, involving, or touching any legitimate interest whatsoever.

SPECULATION.

Excessive speculation in cotton is the second evil attributed to future trading. It is true that future trading makes possible the injurious speculation complained of, but the relationship between the two is no closer than the relationship between any beneficial privilege and the abuse thereof. It is well enough, and praiseworthy and wise to remove, in so far as we may, temptations to the frailties of mankind; but if we undertake to prevent injurious speculation by destroying all opportunities to speculate, we shall have to begin by closing practically every avenue of human activity and end by anihilating the human race. The test of a reform is in the net result. A legal and beneficial system of business should not be overthrown for the sake of preventing certain persons from practicing an abuse injurious to both the system and themselves. A true reform, which is a discerning reform, acts on this rule. The use of a bad principle is a wrong; the misuse of a good principle is an injustice. The wrong should be punished by destruction, the injustice by correction.

It is not to be denied that even in the legitimate exchanges a great many contracts for the future delivery of cotton are bought and sold for a purely speculative purpose, but in the frenzy of speculation that has but recently swept the country, this is equally true of all other commodities and things. Speculation rampant is no respecter of commodities or issues. It is well, therefore, to consider whether this particular evil complained of may not be due more to the tendency of the time than to the nature of the business. Again, before we condemn speculation in entirety, it would be well for us to consider the question as to whether or not there is a distinction between the kinds of speculation, between illegitimate and legitimate speculation, between speculation that is wholly bad and speculation that may be and is beneficial. We believe that there is such a distinction and our conclusion is this: When a man in no wise incapacitated by reason of ignorance, weakness, or lack of means, or disqualified by reason of a position or relation of trust, buys or sells a commodity or thing or its representative, which is an enforceable contract therefor, because he thinks it is cheap or dear, and because he thinks that he can subsequently dispose of his holding at a profit, the speculation is legitimate, not necessarily harmful to the individual and almost necessarily beneficial to the market for the commodity in which he trades. But when a man not so qualified and capacitated as specified, undertakes to speculate, or when any man merely wagers that a certain event or tendency may or may not occur, or if having bought or sold a commodity or

thing or a contract therefor, he enters into a conspiracy with others, or uses some accidental power of his own, to depress or advance the price of the commodity or thing beyond its legitimate value, to the hurt of the bona fide holders of or traders in such commodity, the speculation is illegitimate, hurtful to the individual and to the market in which he trades. Legitimate speculation as here defined is a benefit to the cotton market, in that it supplies a demand for the commodity at a time when the demand for consumption is absent or in abeyance, and thereby aids in carrying the temporary surplus of supply over demand. It is further beneficial in that it brings to the future market a larger supply of both buying and selling contracts, which to that extent facilitates both merchant and manufacturer in making quick and advantageous hedges of his specific contract and of his specific purchases and sales. Illegitimate speculation as here defined is wholly demoralizing and bad. It helps no one and injures everyone and should be destroyed.

The evil of excessive and hurtful speculation is somewhat more difficult to reach than the bucket-shop evil, but it can be reached, and if not destroyed it can be materially lessened. A popular arraignment of speculation in cotton contracts is based upon the charges that men in moderate circumstances have been reduced to poverty and goaded into crime by their losses in speculation; that employees by reason of their losses have been driven to embezzlement and theft; that men in positions of trust have been by reason of losses in cotton speculation or of a desire for gain, tempted into the appropriation of funds belonging to others. We believe that by far the greater number of these disasters proceed from bucket-shop gambling, and that with the complete elimination of the bucket shop, the number of these unhappy incidents would be comparatively small. But, assuming, for the sake of this argument, that this class of speculators do operate in the legitimate exchanges where a hundred-bale contract is the minimum trade permitted, we still declare that they can be practically eliminated and the problem thereby nearly solved. The result can be largely accomplished by restrictions preventing the broker from executing any order unless the same is accompanied by a cash deposit large enough to be prohibitive to the smaller speculator and restrictive to the larger, and by prohibiting a broker from accepting an order from any employee of any person, firm, corporation, or trust company, unless said order is accompanied by the written consent of such employer.

UNCOMMERCIAL CONTRACT.

The third evil to be considered is found in the terms of the future contract itself and in the rules of delivery and settlement thereunder, resulting in an injurious effect upon the market and upon the price of cotton by the delivery of cotton, or tender of delivery, on such contract and under such rules. A contract giving an undue advantage to either seller or buyer is not only a contaminating element per se, but it also invites and facilitates the formation and the operations of those combinations of speculators which demoralize a market and injure legitimate traders by the sheer force of speculative activity. Logically this evil should be considered under the head of illegitimate or wrongful speculation, as heretofore defined, but

in view of the importance of the principle involved, we give it separate consideration. Such a contract not only fails to perform the legitimate functions of a future contract, but it puts a premium upon illegitimate usage. It not only fails to afford protection to the legitimate trader, but it throws the freebooter of speculation upon his back. It facilitates manipulation and nullifies foresight. A contract that is not fair is a reproach and can not survive. A contract that offers inducements to the speculative seller by giving him an unfair advantage, or to the speculative buyer by giving an unfair advantage, is contrary to public policy and should be made unlawful, if it is not already unlawful. The unfair contract affords a striking instance of the unjust application of a just principle. But the remedy for this wrong application lies not in depriving the individual of his right to contract, but in protecting him from the injurious operation of an inequitable contract.

The remedy for the evil of the unfair contract is very plain and of easy accomplishment. A law establishing a national standard of classification of the marketable grades of cotton, upon which standard all arbitrations on contract deliveries must be made, prohibiting any contract on which can be delivered unmarketable cotton or useless stuff, or cotton of a value uncertain and not readily ascertainable, and providing that all cotton delivered on contract shall be paid for on the basis of actual differences in the spot value of the grades delivered on the market and at the time of delivery, would effectually and immediately eradicate this evil influence.

DUTY.

Thus it seems plain that the legitimate future contract is in itself entirely legal and honest, and has in the evolution of the cotton trade become a necessary, if not an indispensable, factor in the proper and advantageous marketing and distribution of the cotton crop and the manufactured product. It also seems plain that the future contract, by reason of its protective and auxiliary functions, has become so assimilated by the cotton trade that it can not be eliminated except at the cost of demoralizing a great industry and crippling a great people. It further seems plain that the evils complained of are not inherent in the system of legitimate contract trading, but merely incident thereto, and can be eliminated therefrom with no hurt to the system itself, but with benefit thereto. The conclusion, therefore, follows that it is the duty of not only our legislators, but of our exchanges and of everyone who has at heart the welfare of the South and of the nation, to vigorously attack and destroy the evil, but no less steadfastly to sustain and encourage the good.

The New Orleans Cotton Exchange defends no evil. Our laws and rules in force at this time represent the best thought of our members aided by the sound suggestions of Mr. Herbert Knox Smith, Commissioner of Corporations, and reinforced by his approval. We have taken counsel not only with the commissioner, but also with leading cotton producers and manufacturers, and our conclusions have been reached under stress of a full appreciation of our duty and obligation, not to any particular interest or faction, but to the cotton trade at large. We, however, are not yet satisfied. We will welcome further investigation and scrutiny, and will pay earnest heed to all

reasonable suggestions looking toward the improvement of the cotton contract and the cotton trade; but we are convinced that such improvement will not come through destructive legislation; it will come through constructive endeavor.

IMPORTANCE.

It is a momentous issue here discussed. It is not a matter for casual legislation. We are tampering with a great trade system and with the welfare of millions of people. We should be careful in dealing with questions of this great consequence. We should consider deeply the fundamentals of the problem and not be led into essential error by a vindictive assault upon superficial issues. The future holds great promise for the American cotton producer and for the American cotton manufacturing trade. We can not afford to take the chance of nullifying this promise by a heedless conflict with immutable economic laws which no Congress can alter or repeal.

Now, Mr. Chairman, I have finished with the formal part of my talk, and I take pleasure in introducing to the committee the other members of my committee, Mr. Edmund J. Glenny, who is vice-president of the New Orleans Cotton Exchange, and who is very familiar with the new rules and with the warehouse and delivery end of our future contract proposition; Mr. William F. Pinckard, who is the president of the Future Brokers' Association, of New Orleans; and Mr. John F. Clark, who is the chairman of our committee on revision. It is a spot committee entirely. Now, the gentlemen I have named and myself are at your service, and any questions that the committee desire to ask we will be pleased to answer to the best of our ability.

The CHAIRMAN. Do any members of the committee wish to ask any questions of Mr. Thompson?

Mr. LEVER. I would like to ask him some practical questions, unless some of these gentlemen wish to address the committee on this matter.

The CHAIRMAN. I think it would be more satisfactory to interrogate Mr. Thompson now, and let them say anything they may have to say afterwards.

Mr. LEVER. Mr. Thompson, what is the membership of the New Orleans Cotton Exchange?

Mr. THOMPSON. I think it is now something over 400.

Mr. LEVER. How many of those men are members of the New York Cotton Exchange?

Mr. THOMPSON. I could not tell you, Mr. Lever. I really do not know. I have not looked that matter up at all. I do not think that there are a great many. I know we have a good many members, however, who are members of the New York Cotton Exchange.

Mr. LEVER. How many members of the Liverpool exchange are members of your exchange also?

Mr. THOMPSON. I could not tell you that accurately.

Mr. GLENNY. I will answer that for you. There are none. The Liverpool exchange does not permit an English-born subject to become a member of this exchange. They have a system of associate membership, which gives simply the privilege of doing business on a smaller commission, but without the benefit of any voice in any legislation or anything tending to the conduct of the exchange.

Mr. LEVER. Under that have you the right of conducting business?

Mr. GLENNY. Those associate members have no rights except to do business there on a reduced commission. They have no right to enter protests as to the construction of their rules or anything of that kind.

Mr. LEVER. Do you happen to know how many members of your exchange are associate members of the Liverpool exchange?

Mr. GLENNY. A small percentage, a very small percentage. I could not tell you the exact figures, but only those who do a Liverpool business. The only object in being a member is to do that Liverpool business at a reduced commission.

Mr. LEVER. Do you happen to know how many members of your exchange are members of the New York Cotton Exchange?

Mr. GLENNY. Not positively. That information could be very easily obtained. I think the New York Cotton Exchange men could probably answer that better than we could.

Mr. LEVER. Mr. Neville, can you give us that information for the record?

Mr. MANDELBAUM. We have put in evidence the membership of the New York Cotton Exchange, which contains the name of every member of the New Orleans exchange who is a member of the New York exchange.

Mr. LEVER. If it is already in the record, that is all right.

Mr. Thompson, you have made the statement that the abolition of future trading would reduce the price of cotton paid to the producer of cotton. Will you elaborate that a little more fully and tell us just how that would happen?

Mr. THOMPSON. In the first place, as I suggested in my statement, it would narrow the market. One of the most influential factors in creating a good and active demand for cotton is the forward demand that is created—the obligations that spinners and merchants have entered into to use a certain amount of cotton. Now, they are able to do that by reason of the future contract. They are able, as I tried to explain, in this way to do that. The spinner, for instance, will take orders way ahead for goods. That creates a demand on his part for cotton. It makes no difference what the fluctuations in the cotton are, he wants to get that cotton and manufacture it and sell it as the time comes around. When that is done it creates a demand that is waiting for the cotton when it comes; it makes no difference what the price may be at that time, there is a demand for that cotton; and we all know that the extent of the demand regulates the price of the cotton.

Mr. LEVER. In other words, the demand for the future contract, as it were, puts the price upon the spot cotton at the time?

Mr. THOMPSON. Oh, no; I mean this. I mean that the demand for the actual cotton is made possible because the spinner or the merchant can protect himself by executing a future contract.

Mr. LEVER. As a matter of fact, is there any appreciable relationship between the price of a future contract and the price of spot cotton in an interior point?

Mr. THOMPSON. Yes, sir; there ought to be.

Mr. LEVER. It is a fact that interior merchants buying spot cotton base their prices to the producer upon quotations of future contracts?

Mr. THOMPSON. I believe they do.

Mr. LEVER. You believe they do?

Mr. THOMPSON. I believe they do. However they base it, the resultant price is not always the same. The futures may be at a certain figure, and one day they will bid 50 points on for a certain grade and futures may be lower, and in order to get that grade they may bid 60 points on. That is the base, but not an inflexible base.

Mr. LEVER. That is true; but the future contract price enters largely and almost entirely into the making of the spot price?

Mr. THOMPSON. No; if you will excuse me, I would not like to be quoted to a statement as broad as that. The supply and demand really make the price of cotton. Now, the variations in the future contract may temporarily disturb that; but in a properly regulated future contract it will come back. Now, they use the future contract—that is, the quotations in the future market—as the basis for these bids, because they are able to figure on that basis so that they can hedge themselves; don't you see?

Mr. LEVER. And for the time being, in a given spot market, the local spot merchant bases the price to the producer upon the future price?

Mr. THOMPSON. Do you mean the man who is buying from the producer?

Mr. LEVER. Yes.

Mr. THOMPSON. Yes.

Mr. BURLESON. He has instructions to buy so many points on or off?

Mr. THOMPSON. Yes.

Mr. LEVER. We all understand that.

Mr. THOMPSON. Yes, sir.

Mr. LEVER. You made the statement a moment ago that future trading had a tendency to give stability to prices. Is that a fact?

Mr. THOMPSON. Properly conducted, it is, sir. I mean by that that if it were not for future trading whereby the distribution of the crop could be made, we would have much more violent fluctuations up and down. For instance, we know that in the South most of the cotton is sold within a few months. The crop is not marketed as it ought to be; it is marketed precipitately. Now, if there were only the actual user of cotton, the manufacturer of cotton, to whom the producer could sell, then it stands to reason that when this great volume of cotton came on the market at this particular time and there was only one limited class of men who bought that cotton, all they would have to do would be to stand aside, and the price of cotton would descend and descend until such prices were reached as they were willing to go in and buy at, and they would get the cotton at a bargain.

Mr. LEVER. If we should ever reach such a condition as that in the South, when the country was filled with warehouses in which the farmers might warehouse their cotton, and the farmer had reached such a condition of financial strength as to be able to market his cotton throughout the entire twelve months of the year instead of through three months of the year, would you not say that the abolition of future trading would have the effect of depressing the price to the producer?

Mr. THOMPSON. Not particularly, in that direction. If they were able to cure this defect in the marketing, they, of course, would not need the future contract, so far as that particular defect is concerned; but that would not eliminate the necessity for the future contract.

ecause the future contract is a part of the system. There are other eneficial features of the future contract that even the proper mareting of cotton would not enable us to do without.

Mr. LEVER. As a matter of fact, do not the tremendous and violent uctuations that we have seen from time to time on the various xchanges of the world, the Liverpool, New Orleans, and New York xchanges, in the future contract have a tendency to upset business nd upset prices?

Mr. THOMPSON. Of course they have; but I think you will find you consult the record, that those fluctuations were as violent efore they had future trading as they have been since.

Mr. LEVER. Is it a fact that in commodities in which there are no iture tradings there are fluctuations as violent as in commodities ı which we have future trading?

Mr. THOMPSON. I think not.

Mr. LEVER. You think not?

Mr. THOMPSON. I think not; but the basis or level of value that ou get for those commodities is lower than the level of values that ou get for commodities in which there is future trading. In other ords, in those commodities where there is no future trading, where he public can not come in and compete with those particular interests that use those commodities, you do not have fluctuation. The rice of a trust-controlled commodity hardly ever fluctuates. It is ery steady, but at a low level.

Mr. LEVER. Take the case of hay. Are the fluctuations in the rice of hay as violent as the fluctuations in the price of cotton?

Mr. THOMPSON. I could not say, but I think not. I know very ttle about hay, to tell the truth.

Mr. LEVER. You know that hay is one of the great crops of this ountry?

Mr. THOMPSON. Yes; I know it is one of our great crops.

Mr. LEVER. In value it is greater than cotton, is it not?

Mr. THOMPSON. I really do not know. I am not up on the statistics.)o we export hay?

Mr. LEVER. I presume so. I do not know in what proportion.

Mr. THOMPSON. You see, the great proportion of our cotton crop hat we export is surplus. The surplus over domestic consumption s what gives cotton a character that other things, like wool, and ther things that we do not export but consume ourselves, do not ave. That is what gives cotton a different character, and it is overned by somewhat different rules from these other commodities.

Mr. LEVER. You mentioned some time ago the evil of excessive peculation, and you spoke of your desire to eliminate that evil as ar as possible.

Mr. THOMPSON. Yes.

Mr. LEVER. If the bill we have under consideration looked only to he elimination of excessive or gambling transactions pure and simple, s we feel that they are—we will put it in that language, at least—ou would have no objection to that bill, would you?

Mr. THOMPSON. I would have no objection to that bill provided it id that thing. In other words, I mean this, that if it prohibited hat we call or generally understand as rank gambling, I would not ave any objection to that; but I would not want to give my assent o a bill that would not only prevent that, but would prevent what e call, and what I think is, legitimate speculation.

Mr. LEVER. Have you read the Scott bill carefully?

Mr. THOMPSON. Yes; I have.

Mr. LAMB. May I ask you a question right there?

Mr. THOMPSON. Yes, sir.

Mr. LAMB. What, in your judgment, would be the effect of the enacting of the Scott bill into law upon this system of hedging that you have so ably—if you will permit me to say so—presented here to this committee?

Mr. THOMPSON. I am not prepared to say, sir. I do not know. I am not a lawyer and I am not familiar with those questions. I could not say. I am afraid, from the reading of the bill, that it would seriously disturb it.

Mr. LAMB. That is what I wanted to find out from you.

Mr. THOMPSON. Yes, sir.

Mr. LEVER. You would not be opposed to any legislation which would prohibit a contract for future delivery in which the delivery was not intended to be made at any time?

Mr. THOMPSON. No. I would say this. I want to make this distinction. A great deal of cotton is bought and sold in a perfectly legitimate and business way and for legitimate and business purposes, where the parties do not intend delivery. They simply sell the contract as a protection. I have, for instance, 100 bales of cotton that there is no market for, and I see that some people are bidding for cotton a price that I am willing to take for my cotton for future delivery. Now, I will sell that contract. Before that contract matures I may find some spot man who comes around and offers me a good price for my cotton; it may be better than the future price for my cotton. I do not want to be debarred from the privilege of selling that spot cotton and closing out my contract, because that is what I have bought the contract for, to assure me that I will get that much for my cotton. I want a contract so that if I wanted to deliver that cotton I could enforce the delivery, and when I did enforce the delivery I would have a clear bill.

Mr. LEVER. Then your New Orleans contract, as I understand you, permits you to enter into a trade in which delivery does not form any factor at all?

Mr. THOMPSON. No, sir; the rules of the exchange are that there must be an intention on the part of the parties to carry out this contract.

Mr. LEVER. To make the delivery?

Mr. THOMPSON. To make the delivery. It is not, however, essential that the delivery be made.

Mr. LEVER. And in practice it is very rarely made?

Mr. THOMPSON. No, I would not say that. We have in our exchange delivered a good deal of cotton. There has passed through our qualification delivery department this year, I think, 40,000 bales since the 1st of September. That has been actually, or a larger part of that, has been actually delivered on contracts. But practically all of that cotton that has passed through New Orleans this year has been delivered on contracts; not actually on the contract which has been made, you understand. It was covered by a contract; the cotton was in the interior. It was sold under future contract, and all the way down to market that cotton was covered by that future contract, and it was entirely within the power of the man who had made that contract to deliver that cotton when it came to New

Orleans. When that cotton is on the way to New Orleans, he has the samples, and when he finds the man who will take that cotton and ship it out without expense of delivery he lets him take that cotton off his hands at a price, and then he sells his contract, and while there has not been an actual physical delivery of that contract there has in spirit and in truth been a delivery of that contract.

Mr. LEVER. As a matter of fact, as an operator on the exchange, if you receive an order from Mr. Smith to buy 100 bales of cotton, do you make any inquiry as to his intent to deliver, or do you assume that?

Mr. THOMPSON. Now, I will say this, that I am not a future broker.

Mr. GLENNY. I am president of the Future Brokers' Association, and I want to say that there can be no contract entered into on the floor of the New Orleans Cotton Exchange that does not contemplate the delivery of cotton. It is specified in our rules that there can be no contract made on the floor of the New Orleans Cotton Exchange that does not contemplate the actual delivery of the cotton, nor can there be any collusion by which we contract and it is not to be delivered. If I buy a contract, I buy a contract which forces me to accept that cotton, and if I sell a contract I sell a contract that forces me to deliver the cotton. Now, with Mr. Smith, to whom I sold it, it cuts no figure. He sells that out to Mr. Jones. But eventually that contract has to be enforced on the floor of the cotton exchange. The actual delivery of every bale of cotton bought on the floor of the cotton exchange can be enforced, and you can make no other contract there than that. And no matter what the intention or the desire of the individuals, or what understanding they arrive at, the rules say specifically that no contract can be entered into on the floor of the New Orleans Cotton Exchange that does not contemplate the receipt or delivery of cotton.

Mr. LEVER. Do the operators on the New Orleans Cotton Exchange regard themselves as merchants?

Mr. THOMPSON. Yes, sir.

Mr. LEVER. Cotton merchants?

Mr. THOMPSON. Yes, sir.

Mr. LEVER. Is it not a fact that in the conduct of the world's business the merchant is a gentleman who buys at the lowest price and sells at the highest?

Mr. THOMPSON. What is that, sir?

Mr. LEVER. I say, in the conduct of the world's business is not a merchant one who buys a commodity for the lowest price he can get it for and sells it for the highest price he can get for it?

Mr. THOMPSON. I think that is a rule that applies not only to merchants, but to everybody in every line of business.

Mr. LEVER. Yes.

Mr. THOMPSON. Certainly.

Mr. LEVER. How many grades are deliverable upon that contract in New Orleans?

Mr. THOMPSON. Middling cotton is the basis, and there are 4 grades up and 4 grades down; or rather, there are 4 half grades. We have middling cotton, and above is strict middling, and good middling, and strict good middling. Below the middling grade we have strict low middling, and low middling, and strict good ordinary, and good ordinary.

Mr. LEVER. You have 9 grades. You have 9 grades on your exchange as against 28 grades on the New York exchange?

Mr. THOMPSON. No; those are the full grades; or the half grades, as you may call them. Now, we deliver those; but if any cotton is intermediate, we deliver intermediate grades, and we also deliver cotton that is of a deliverable grade but has some stain or discoloration that in no wise affects its character as deliverable cotton.

Mr. LEVER. What I am trying to get at is the number of grades, stained or tinged, or the like of that, half grades or full grades, that you can deliver upon a contract, if I buy 100 bales of cotton on the market.

Mr. THOMPSON. If you buy 100 bales of cotton on a New Orleans contract, we can deliver you between the grades of good ordinary and middling fair. There are the nine grades. If a bale of middling, for instance, is stained, we can deliver that. If a bale of low middling is stained, we can not deliver that. A bale of low middling that is tinged, just a little off from the color, we can deliver to you, but we can not deliver you anything lower than low middling unless it is fair colored cotton.

When you go above, if we have strict middling cotton and it is stained or tinged, we can deliver that to you. It is the same with the other grades. If you add them all up——

Mr. LEVER. That is it; now add them all up.

Mr. THOMPSON. If you add them all up, it makes quite a number of different kinds of cotton you can deliver on the contract. We have also a provision, as far as sand is concerned. A little sand in cotton detracts a little from its value, but not enough, if there is only a small amount of sand, to prevent the cotton from being readily usable. We have a rule that you can deliver sandy cotton on contract provided it does not contain more than 1 per cent of sand, which amount has been found by experience not to militate against the merchantable character of the cotton; and we have scales, and a very definite way by which that percentage can be determined. As I say, if you take the nine basic grades and then add to those the stains to each one that you can under our contract, and the tinges to each one that you can, and then the sandy to each one that you can, it multiplies the number of apparent grades deliverable, but it does not in fact multiply to any considerable extent, or increase to any considerable extent, the cotton that is deliverable. For instance, if you take a middling bale of cotton and then a stained middling bale of cotton, there would be two grades, as you would figure it; but really the stained is middling cotton, which is not quite as good as another kind of middling.

The multiplicity of grades does not injure the contract at all. On the contrary, if you get at the actual, true value of each one of those grades, it helps the contract; because a man then knows, when he takes the cotton on the contract, just what he is going to get. It makes it more accurate; provided, of course, that if I deliver that cotton to you, for instance, when you pay me for it you pay me upon the basis of its relative value over and above the base of the contract.

Mr. LEVER. How is that relative value fixed?

Mr. THOMPSON. In our exchange the relative value is fixed by the spot quotations.

Mr. LEVER. From day to day?

Mr. THOMPSON. From day to day. The difference existing between the different grades in our spot market on the sixth day prior to delivery governs the settlement of the contract.

The reason we say the sixth day is that the notice is given at a certain time that five days thereafter the cotton will be tendered, and the day that notice is given is counted, and five full days thereafter, which makes six days, and the conditions existing at that time fix the conditions upon which that contract is to be settled.

The CHAIRMAN. May it not be possible that even such a contract as you describe may not be desirable? Are there not cases in which a spinner would desire a certain kind of cotton and he would not be satisfied with the delivery of another kind, even although the exact commercial difference was represented to him in the price?

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. And is it possible, therefore, for a spinner desiring and requiring a certain kind of cotton to secure it by compelling the enforcement of one of these contracts on your exchange?

Mr. THOMPSON. The spinner can not get just exactly what he wants at all times on a contract. On a future contract that is sold around the ring he can, however, make a specific contract with cotton merchants, such as we have at home, for 1,000 bales of strict middling or 1,000 bales of middling, as the case may be. That is a specific contract.

The CHAIRMAN. Yes; but that is not what you refer to when you speak of future contracts?

Mr. THOMPSON. No. Well, he could not buy that. He would be glad to buy that, but he can not buy it around in the future market, because he would find nobody who would be willing to sell him such a contract as that. There would be a lurking peril in that contract that a man would not want to incur, because if he contracted to deliver 1,000 bales, or 100 bales, of strict middling cotton at a certain future day he would have no assurance, but at that time he might not be able to get the strict middling cotton, you see; so that the spinner can not get that kind of a contract; nobody will sell him that kind of a specific contract around the ring. That is properly the subject of a contract between the individuals. Now, when that contract is made between the individuals, then, I being one of the individuals, unless I have that cotton actually on hand, I go immediately to the future market and buy me a basis contract that protects me.

The CHAIRMAN. Then, as a matter of fact, whatever future contract the spinner may buy in the way of a hedge is substantially a speculation, because he would not dare to enforce the delivery of those contracts?

Mr. THOMPSON. Oh, yes; he would. If the contract is a correct contract he can do it if he wants to. For instance, take our contracts. If a spinner bought one of our contracts he could take the cotton on that contract, and if he found the cotton in the contract that he could use, and it was not all merchantable cotton, he would use that which he could use, and the balance of it he could retender or sell as he saw fit. We have a large business done in that way. Take an exporter, for instance, a man who sells cotton—a merchant who sells cotton to the other side or to the American mills. He has large connections. This is done to a large extent on our exchange to-day. He will buy

a future contract for March, we will say, or for May, When that time comes he takes delivery; he calls for the cotton. We had an instance of that just the other day. There were 6,500 bales of cotton called for the other day, and subsequently to that 4,000 bales. That was just before I left home. He will call for the cotton. Now, that cotton is given to him and he looks over the classification. He looks over that cotton and he finds, we will say, for instance, certain grades of cotton that will suit certain sections and certain other grades that will suit other sections. He takes those out and ships them out, and the cotton which perhaps he has no immediate use for he has recertificated and he carries it until he has use for it, or delivers it on contract to somebody.

The CHAIRMAN. In other words, it is essentially a speculation with him? I think you will understand the point I have in my mind, perhaps, if I use a wheat margin as an illustration. A gentleman representing the Toledo exchange was before the committee a few days ago, and he stated that under the future contracts in which they dealt upon that market only one grade of wheat was deliverable. Now, we can easily see how a miller could hedge by purchasing a future contract of that sort, because he would know absolutely that it was to his advantage to enforce delivery. In doing so he would secure a grade of wheat that he could take right to his mill and grind.

Mr. THOMPSON. Yes.

The CHAIRMAN. But suppose that a cotton spinner can use no cotton which is stained or tinged at all; he must have white cotton.

Mr. THOMPSON. Yes.

The CHAIRMAN. He could not depend upon one of your future contracts to get that white cotton.

Mr. THOMPSON. Yes.

The CHAIRMAN. The best that he could do would be to assure himself that he would get certain cotton.

Mr. THOMPSON. Yes.

The CHAIRMAN. At a fixed price.

Mr. THOMPSON. Yes.

The CHAIRMAN. And he would have to make himself good, if there was a loss, by the sale of the cotton that he could not use.

Mr. THOMPSON. Yes.

The CHAIRMAN. It would involve him in a whole lot of other transactions, and would be in its essence a speculation on his part; is not that true?

Mr. THOMPSON. Yes, true; but I differ with you so far is its being a speculation is concerned. You understand, the spinner can do either one of two things. In the cotton business, if he needs cotton for future use and he can not buy the actual cotton at that particular time, then he can buy a future contract for that cotton, and he knows he is going to get some cotton, and cotton that is marketable; he knows that as a money proposition he is not going to lose anything. In a spot market you find people whose business it is to supply spinners with their particular requirements. Suppose that the spinner, instead of making a future contract, had made a specific contract with an exporter or with a merchant; that exporter and merchant would not make that specific contract unless he could go into the market and buy for future delivery a sufficient amount of cotton to protect him.

The CHAIRMAN. As a matter of fact, is not that the way the business is conducted very largely now? Do not the spinners go direct to the merchant and enter into a specific contract with him for the delivery, at such times as it may be needed, of cotton of a particular grade and rest upon that contract, making no hedge themselves, purchasing no hedge themselves, but leaving the merchant to protect himself in whatever way he can?

Mr. THOMPSON. Well, I can not say about that. My understanding is that the spinners use the market largely as a hedging proposition. But I do not sell cotton to spinners. That is not my particular line; so that I could not say how much they do hedge. But I am sure that they hedge, that they use it as a hedging market pending such time as they can make a contract for a specific grade, or such time as a specific grade is offered them.

Mr. LEVER. From your answers to the questions of the chairman I assume that the seller on that contract has the option as to the grades deliverable?

Mr. THOMPSON. Within limits.

Mr. LEVER. Within limits?

Mr. THOMPSON. Yes.

Mr. HAUGEN. Strictly within limits?

Mr. THOMPSON. Yes.

Mr. HAUGEN. May not a higher or better grade be delivered?

Mr. THOMPSON. No, sir.

Mr. HAUGEN. A higher grade, above?

Mr. THOMPSON. No, sir; the limits are fixed by the contract, from good ordinary middling to middling fair.

Mr. HAUGEN. If the seller offers a better grade than is in the specific contract, would objection be made to it?

Mr. THOMPSON. He could not enforce delivery. It might be that the individual would be willing to take it, but the contract that he has signed calls for cotton within the limits specified. There is very little cotton, though, above the high-grade limit of the contract.

Mr. HAUGEN. He probably would not object if it was of a better grade than he bargained for?

Mr. THOMPSON. No; but he would have to pay a correspondingly high price for it.

Mr. LEVER. Is not the effect of that contract which gives the seller the option as to the grades deliverable just this? To illustrate, a spinner wishes 1,000 bales of cotton for the use of his mill, and he buys a future contract for 1,000 bales of cotton deliverable in July, we will say. He knows when he is buying that contract that he may have delivered to him on that contract 500 bales of cotton that he may not be able to use in that particular mill. Would it not be the natural tendency for that man to bid a price low enough for that contract to justify him, or to pay the expense of handling the 500 bales of cotton which he can not use in his own mill?

Mr. THOMPSON. Yes, sir; that is true. That expense, however, is very small.

Mr. LEVER. It is very small?

Mr. THOMPSON. Yes.

Mr. LEVER. But to that extent the matter of hedging has a tendency to decrease the price of your contract?

Mr. THOMPSON. Oh, like anything else; of course, if he could call for a specific grade that he wanted, and without any inconvenience, he would bid a great deal more for the contract than he would if he was put to some little trouble and inconvenience.

Mr. LEVER. But he charges all the trouble, all the inconvenience, all the rehandling of the off grades that may be delivered to him, to the price he pays of the future contract.

Mr. THOMPSON. But he does not fix the price that he pays for the future contract. He has to pay the prevailing price, you understand.

Mr. LEVER. That is very true, but I understood that the law of supply and demand regulated the basis contract.

Mr. THOMPSON. Yes.

Mr. LEVER. So that this being a general thing, the general tendency would be for these men to charge that up to that?

Mr. THOMPSON. It is just as you say. If the contract involves any possibility of additional expense to him, of course he is going to figure that in.

Mr. LEVER. Yes.

Mr. THOMPSON. Going a little further, however, the spinner would be very glad indeed to have a contract that put all of the burden upon the seller of cotton, so that he would not have to take any of the burden or expense himself; and if such a contract as that were made, a narrow contract that gave the spinner the privilege of calling for whatever he wanted, you would find nobody on earth who would sell him that contract, because the spinner would squeeze him, because he would not have what he wanted.

Mr. LEVER. But in that contract there is this possibility—that is, not a possibility, but almost a certainty—that the spinner who desires to hedge on your market must bear this additional expense of carrying grades that he does not want?

Mr. THOMPSON. In our market the additional expense is exceedingly light, because in our system the spinner takes out what grades he wants, and for the balance which he does not want he carries his same certificate, or we issue to him a new certificate at a mere nominal cost of 25 cents a certificate.

Mr. LEVER. Is that true of other exchanges in this country?

Mr. THOMPSON. I do not know. I know it is true of ours.

Mr. BEALL. I understood you to say a moment ago that if, under a contract, the buyer had the option of determining just what cotton should be received by him, he could not find anybody to sell it to him, because if the opportunity came the buyer would squeeze the seller?

Mr. THOMPSON. Yes.

Mr. BEALL. Now, let us reverse that. Take a contract in which the entire option rests with the seller, not only as to the grade of cotton, within the limits of the contract, that should be delivered, but also the period—within a certain month, say—, of delivery.

Mr. THOMPSON. Yes.

Mr. BEALL. Any time within the month of March the seller can deliver on a March contract. Under that contract he can deliver any grade of cotton that is embraced within that contract. Does not the reverse condition, from what you stated a while ago, apply in that sort of a case, so that no man who really wants cotton can very well afford to go upon the cotton exchange and buy it with the expectation of having the actual cotton delivered to him?

Mr. THOMPSON. No, sir; because if he buys a contract of that sort—if he takes that cotton—he knows that when he gets that cotton, and when he pays for it, the cotton then becomes his to do with as he pleases. He uses it if he can. If he can not, he sells it on the market on the same basis on which he got it; or if he can not sell it on the market, if there is a dullness of the market, he can deliver it back on contract at the same basis.

Mr. BEALL. So far as having any assurance of getting cotton that he can use is concerned, he can not very well afford to go upon the market—upon your exchange—and buy it, can he?

Mr. THOMPSON. If we delivered, on our exchange, cotton for which there was no use, which was not marketable, there would be that fear, and it would depress the value of the contract; but if you have a contract where the low grade, or where any particular cotton delivered on the contract is marketable, is merchantable cotton, is usually in demand for a purpose, then the man who takes that contract takes it without any lurking danger or peril. He knows what he is going to do. He takes the cotton, and if he finds that he can sell that cotton on the spot for what it costs him on that contract he does it. If he does not do that he does not lose anything, because he has got his certificate of the cotton exchange showing the grade of the cotton, and all he has to do is to sell the contract and deliver the cotton on the contract; and possibly the man that buys it next time has a place for it, and nobody has lost.

Mr. BEALL. Still, it is a fact that the spinner who wants cotton does not go to the cotton exchange to buy it?

Mr. THOMPSON. He goes to the cotton exchange to buy his hedge, until he is able to make a contract.

Mr. BEALL. But he does not go to the cotton exchange to buy the cotton for consumption?

Mr. THOMPSON. No.

Mr. BEALL. There must be some reason for that.

Mr. THOMPSON. Yes; he gets cotton on the contract that he does not want.

Mr. BEALL. That is the point I was trying to emphasize.

Mr. THOMPSON. Yes.

Mr. BEALL. Now, do you keep any record of your cotton exchange as to the transactions there?

Mr. THOMPSON. Of the fluctuations, we do.

Mr. BEALL. Of the fluctuations, but not as to the volume of the business, or the sales?

Mr. THOMPSON. No, sir; we do not.

Mr. BEALL. Can you form any estimate as to what would be the volume of business on your exchange, under normal conditions?

Mr. THOMPSON. No, I can not; nobody, hardly, could do it, because in listing, or keeping a record of, the trades that are made there, you do not know whether those are original trades or whether they are retransfers of contracts. For instance, as an illustration of the sort of thing I mean, take a bank check. I have $100 in bank. I issue a check to you for $100. You take that check and you deposit it in your bank, or you may transfer my check. That check may go around through the hands of as many gentlemen as there are on this committee, and yet there has been only $100 that has ever been subject to that check, and that $100 may never have left the bank.

It is the same way with cotton. You sell a contract, and that contract is put on the market. When I get rid of it, I offer to sell that contract, and somebody else may buy it; so that you can not say that the number of original sales is represented by the number of bales that this, that, and the other man offers, because each man may be simply offering a check, in other words, that has been issued against particular cotton.

That is the way in the whole cotton crop. You see, a bale of cotton or 100 bales of cotton passes through three or four hands before it gets from the farmer to the spinner. Each man that has that cotton, usually, in the modern system of handling the spot business, has it protected by a future hedge, and when he gets through with it, he gets rid of it. Somebody else takes it. There has been only 100 bales of cotton sold; but the number of future contracts that represent that hundred bales in its different steps of ownership adds a good many more. It is just like an insurance on a building. I own a building and I have it insured. I sell it to you. I cancel my insurance and you take out more insurance, or else I transfer my insurance to you. Of course, after a time, if there have been a good many transfers of that property, if you add up the gross amount of the insurance policies against the property, you may say that that has been tremendously over-insured, when as a matter of fact it has never had more than the original amount of the insurance against the property.

Mr. BEALL. I understand you can not give any estimate of the volume of business on your exchange?

Mr. THOMPSON. No, sir; I can not. It depends, of course, on the season.

Mr. BEALL. Can you take any particular time and form an estimate as to what, in your judgment, would be the largest volume of business that you have ever seen transacted on the New Orleans Cotton Exchange in one day?

Mr. THOMPSON. You will have to ask some of these gentlemen who are in the "future" business. I am not in the "future" business.

Mr. BEALL. You are a member of that exchange?

Mr. THOMPSON. I am a member of that exchange, but I am in the spot business. I have no means of estimating the amount of transactions in a day.

Mr. BEALL. I understood you to say a while ago that since the 1st of September there had been but 40,000 bales of cotton in the warehouses to be deliverable upon contract at New Orleans?

Mr. THOMPSON. Actually.

Mr. BEALL. Actual cotton?

Mr. THOMPSON. Yes.

Mr. BEALL. And for more than six months the 400 members of the New Orleans Cotton Exchange have brought and sold back and forth upon a total amount of actual cotton reaching only 40,000 bales?

Mr. THOMPSON. No, sir; I said there were only 40,000 bales that had been actually delivered on specific contracts; but I explained, in order that it might be understood, that when cotton is covered by a contract the contract performs its function. It is covered by a contract; but if I have sold you, and you have bought, a future contract, and my cotton comes down to the market, I then will say, "Here, I have got this cotton here; we will not let it pass through

the exchange; I will deliver that cotton to you and you pay me on the basis that we figure ourselves;" and we will not go to that expense, but we will just close out the contract, you see. So that in that way a great deal of cotton, as a matter of fact, all the cotton in this whole crop at one time or another, is covered by a future contract; and if it was carried to its logical conclusion all of it would be delivered on contract. But in order to save the expenses and to simplify the transaction, when there is no necessity of arbitration we agree as to the cotton. There is a great deal of it which is properly the subject of delivery, but by mutual agreement we do not deliver it, that is, do not pass it through the exchange and incur that expense, but we actually deliver it to each other.

Mr. BEALL. Outside of the exchange?

Mr. THOMPSON. Yes, sir.

Mr. BEALL. Take cotton that goes to New Orleans to be delivered upon an exchange contract; does it go into warehouses there?

Mr. THOMPSON. I do not quite get your question, sir.

Mr. BEALL. Cotton that goes to New Orleans to be delivered upon one of these contracts, does it go into the warehouses; is it warehoused?

Mr. THOMPSON. Yes. You mean, for instance, if a man in the country sold 100 bales of cotton on the New Orleans Cotton Exchange against 100 bales of cotton that he had in the interior, and he shipped his cotton down to satisfy that contract?

Mr. BEALL. Yes.

Mr. THOMPSON. Yes; that cotton goes into the warehouse.

Mr. BEALL. And receipts would be given for it?

Mr. PINCKARD. Not necessarily. Because it would save the expense of sending that cotton to the warehouse, our rules provide that that cotton can be delivered from the railroad depot when it arrives there, in order to save the parties the expense of paying warehouse charges. We allow that cotton to be delivered from the railroad depot, in order to save the expenses to the interior seller, and the buyer pays the drayage.

Mr. HAUGEN. Then those expenses are not incurred?

Mr. PINCKARD. No, sir.

Mr. HAUGEN. There is no disadvantage, then?

Mr. PINCKARD. No, sir; they deliver it from the depot.

Mr. THOMPSON. When it comes to be delivered it can not be delivered on the exchange until it has been examined by the inspection department to see that it is merchantable, and then the cotton is classed by the paid classers of the cotton exchange, and their decision is made and the certificate is issued and that is guaranteed by the exchange.

Mr. HAUGEN. But no additional expense is incurred, except that for inspection and the delivery, over the cash and spot transaction?

Mr. THOMPSON. Nothing but the expense of the inspection, but that would have to be done anyway.

Mr. PINCKARD. Is it not a matter of agreement between the parties whether that cotton shall be certificated or not?

Mr. THOMPSON. If they do not want to do it, it is a matter of agreement between the buyer and the seller whether it shall be done or not.

Mr. Beall. Can you tell us how much cotton has actually gone into warehouses in New Orleans during the past six months to be deliverable on these exchange contracts?

Mr. Thompson. No, sir; I can not tell you that, because we do not know about the cotton that comes into the warehouse at the time it comes in. It may have a future contract against it, but the owner of that contract may sell it on the outside and close out his contract. Of course, after he sells his cotton he does not want a contract against it.

Mr. Beall. You can not tell how much actual cotton has been in New Orleans that was subject to delivery upon these contracts?

Mr. Thompson. No, sir; I can not tell, except generally; but I know that almost all the cotton that comes to New Orleans comes either for sale by factors, such as I am, who sell on consignment—and we do not hedge, because we sell directly for the producer—or, and this is the larger part, much the greater part, of the cotton that comes to New Orleans, it does not come on those terms, but it is brought from the interior and is sold either in transit or at New Orleans. Now, that cotton, as we know by the invariable practice of those merchants, is hedged cotton. The merchants hedge that cotton because they could not afford to take the chances; buying the cotton in the interior as they do they could not afford to take the chances. They will buy 100 bales of cotton in the interior, and the samples are shipped and the cotton is shipped, but it takes the cotton longer to get there than it does the samples. Immediately they buy that cotton they sell a future contract against it. They expose the samples, and the buyers come around and look, and if they can make a trade on that basis, as soon as they make the trade which covers that specific cotton the seller takes out his contract, and when it comes then he delivers it to the man who buys it on that sample.

Mr. Beall. The man who buys, buys it on the samples, and not under an exchange contract?

Mr. Thompson. No; when he does that, the future contract in that case becomes simply and solely a protection to the man——

Mr. Beall. As a hedge?

Mr. Thompson. As a hedge.

Mr. Beall. Mr. Thompson, there is a certain element of risk in handling cotton?

Mr. Thompson. Yes.

Mr. Beall. The cotton merchant, when he sells to the spinner, wants to shift that risk, or all risks as far as possible, off of himself: so he goes in and buys futures; is that right?

Mr. Thompson. Yes.

Mr. Beall. That is for the purpose of eliminating the risk so far as he is concerned. Then the spinner who wants cotton, who sells his cloth, wants to eliminate the risk so far as he is concerned?

Mr. Thompson. Yes.

Mr. Beall. So that he goes upon the exchange, and he buys a future contract?

Mr. Thompson. Yes.

Mr. Beall. The cotton merchant has shifted the risk and the spinner has shifted the risk?

Mr. Thompson. Yes.

Mr. BEALL. Who is it that bears that risk?

Mr. THOMPSON. It is the man who believes that cotton is going up or is going down. It is the speculator who comes in and backs his judgment by his purchases or his sales.

Mr. BEALL. Well, let me ask you this: Would you agree with the statement of a gentleman who says that on a declining market the producer of cotton bears that risk, and that on an advancing market the consumer of cotton goods, the ultimate consumer, bears that risk?

Mr. THOMPSON. I do not exactly catch your question.

Mr. BEALL. Would you agree with a statement made before the committee here by a gentleman, that upon a declining market the producer of cotton has to bear the risk of which we have been speaking, and that on an advancing market that risk is distributed, through the world, upon those who consume the products of cotton?

Mr. THOMPSON. I do not know that I would.

Mr. PINCKARD. I do not see, sir, where there is any risk, provided the producer has already sold against his cotton. He is running no risk on a declining market. If the spinner has bought the contract, he knows there is no risk because the market is going in his favor. There is no risk either way there.

Mr. BEALL. Somebody, somewhere, somehow, has to bear the risk on cotton from the time it is put into the ground until it is made into cotton cloth. The producer bears that risk through the time that the cotton is cultivated, ginned, baled, and sold?

Mr. THOMPSON. Yes, sir.

Mr. BEALL. Now, the risk does not end there. It continues. Who bears that risk?

Mr. THOMPSON. It depends, of course. If the producer simply holds his cotton, he takes the chance; if he holds his cotton without any protection, he takes the chance; he bears the risk of the market going up. If the market goes up, he stands a chance of making money. It is a speculative chance. It is the same way with the spinner, on the other hand. If the spinner does provide himself beforehand, either with contracts for specific grades or with a future hedge, if the market goes up he loses, and if the market goes down he makes, he having made a contract for the cloth against it. But where there is a contract market, and where one person for this reason and another person for that reason is offering contracts, and offering to buy contracts, either the spinner or the farmer can go in—or the farmer's representative can go in—and protect himself just like he can buy a policy of insurance on his house.

Mr. BEALL. Then I understand you to say that the producer can go in and speculate upon the exchange?

Mr. THOMPSON. He does not speculate.

Mr. BEALL. But the producer does not ordinarily do that?

Mr. THOMPSON. I know he does not. It would not be well, in my opinion, for him to do it; but he sells his cotton to somebody who does protect himself, and therefore is enabled to give the producer a better price for his cotton than if he had taken speculative chances in the market. That is my opinion.

Mr. BEALL. At the very time that the producer sells his cotton, is not that risk which has to be taken in connection with that cot-

ton taken into consideration in fixing the price that is to be paid to the producer?

Mr. THOMPSON. I do not know that I quite grasp your meaning.

Mr. PINCKARD. If the producer comes into the market, sir——

Mr. BEALL. The producer does not go into the exchange.

Mr. PINCKARD. I say if the producer does not go into the exchange, but he sees on the board of the exchange that middling cotton for December is selling, say, at 13.50 now, he is perfectly willing——

Mr. BEALL. Just there; that is futures you are talking about?

Mr. PINCKARD. That is futures.

Mr. BEALL. That is, the price of futures?

Mr. PINCKARD. The future price of cotton, to be delivered in December. Now, this planter has counted what it cost him to raise his cotton, and he says, "I am perfectly satisfied to take 13.50 for my cotton, or such crop as I may ship in December." The spinner is able to make the contract to the buyer of goods, based upon December contract at 13.50; so the planter simply sells his cotton at 13.50 to the spinner, who makes it up and sells it to the buyer of goods. There is no risk either way there. The planter is satisfied with the price, and the spinner on that basis can make his contract. The producer is at no risk. He sells the cotton, as he pleases, for 13.50 or 14 cents, as suits him. The risk has nothing to do with the price. The spinner would make that bid because he can make good on that price. He says, "I will give 14 cents," and the planter says, "I can deliver at 14 cents." Then he turns to Mr. Thompson and he tells him to sell 100 bales.

Mr. HAUGEN. To what extent does the planter sell his cotton for future delivery?

Mr. PINCKARD. That I can not say. As a matter of course I can not answer that question. The planter is like everybody else.

Mr. HAUGEN. You were referring to the planter.

Mr. PINCKARD. I referred to the planter. This gentleman wanted to know where the risk came, and whether on an advancing market it was not borne by the consumer and whether on a declining market it was not borne by the producer. I say there can be no risk to the producer; when the price suits the spinner and the producer, they run no risk.

Speaking of speculators, some of the biggest speculators we have are planters. They do not sell against their crops, and where they do not sell against their crops they become as big speculators as any broker on the floor of the cotton exchange.

Mr. LEVER. Mr. Thompson, I gathered from your statement a while ago that in fixing the difference between grades of cotton deliverable on contracts, the difference is fixed from day to day, based upon the price of the spots for various grades?

Mr. THOMPSON. Yes, sir.

Mr. LEVER. That is true?

Mr. THOMPSON. Yes, sir.

Mr. LEVER. What would you say of a system which fixed the differences in grades, through the arbitrary judgment of a committee, once a year? What would you say as to the justice and equity and commercial fairness of a contract of that kind, which fixed those differences in September and November, twice a year?

Mr. THOMPSON. My present opinion is that that contract is on the wrong foundation.

Mr. LEVER. Do you happen to know whether your judgment is shared in by the majority of the members of the New Orleans Cotton Exchange?

Mr. THOMPSON. I am sure it is, because we have adopted, without any qualification, and absolutely without any serious debate, the commercial-difference system.

The CHAIRMAN. Have you had that system since the organization of your exchange?

Mr. THOMPSON. Yes. The commercial-difference system has existed, I am sure, since the organization of the exchange. I have never known of any other. We have this, if you will permit me. We on the first of each exchange year appoint a committee of thirty, taken from the members of the cotton exchange who are best acquainted with the actual spot market. We take into consideration whether a man is a seller, a factor like myself, a buyer, an exporter, or a spot broker. We endeavor to divide this panel up as evenly as we can so as to cover the entire spot cotton trade. Each month from this panel of thirty, which is announced at the beginning of the time, we select five men, having regard in the monthly committee to the same distribution. We have two factors, two buyers and a spot broker on the committee. This committee meets every afternoon at 2 o'clock, and they quote the spot market. From their experience of the market, it is their duty to go into the market and find out what cotton has been sold, and on the basis of the market as they find it they quote the spot market, and those are the quotations for that day.

Whenever, in the judgment of a member of this committee, there should be a change made in the differences—not in the market, whether it is up or down, but in the relative quotations—a meeting of what we call the revision committee is called. The revision committee consists of the spot quotation committee of five and the appeal committee of seven, which is the highest committee on classification in the exchange, and who are men of expert, known experience in the matter. Now, we can have no changes in our differences made except by the revision committee, which is composed, as I have stated, of five and seven, or in all twelve men, and sometimes there are two men of the spot quotation committee that belong on the other committee, which makes it ten. However, we get the judgment, whenever we make a change, of the best talent in the exchange. But the system is made entirely flexible, because any member of that committee, by giving notice to the secretary of the exchange before 12 o'clock of any day, can call a meeting of that committee, and if the necessity should arise, which it never does, the differences could be made every day by that machinery. But as I say, that necessity does not arise.

The CHAIRMAN. How often are changes of the differences made, as a matter of fact?

Mr. THOMPSON. Now, it depends on the crop. This year the crop was high grade, and we have had only one revision on it.

The CHAIRMAN. Has the revision committee, or any member of it, ever been charged with using influence to fix a differential that would be to his or their advantage?

Mr. THOMPSON. No, sir; no, sir.

The CHAIRMAN. Just one further question, I would like to ask. In your formal statement you remarked that one good way, you thought, to eliminate the evils of future trading might be by requiring a greater margin. I believe you stated that you are not engaged in future trading?

Mr. THOMPSON. Yes, sir; I am not.

The CHAIRMAN. Then are you able to answer whether those who do engage in it on the New Orleans Cotton Exchange require any fixed margin, or is it altogether a matter of credit and of individual arrangement?

Mr. THOMPSON. No. I think it depends, of course, on the market. If the market is fluctuating and is very high or low, and is subject to violent fluctuations, then they call for larger margins than they do when the market is more even.

The CHAIRMAN. I believe you said that one member of your committee does operate, and I will defer any further questions along that line until he makes his statement.

Mr. SIMS. As I understand the practical effect of your contract in New Orleans, it is that you sell, say, $50,000 worth of cotton, in effect, rather than a number of bales or pounds, that contract to be discharged by the delivery of the cotton within the grades, on the market value, when it is executed?

Mr. THOMPSON. No; we sell contracts for a specific number of bales.

Mr. SIMS. No, but it comes, so many bales at such a price, to $50,000?

Mr. THOMPSON. Yes.

Mr. SIMS. Now, when you come to make delivery, you make the party delivering deliver $50,000 worth of cotton.

Mr. THOMPSON. That is the idea.

Mr. SIMS. At the existing market value for the character of cotton delivered?

Mr. THOMPSON. That is it.

Mr. SIMS. And not an arbitrary value fixed months before, which may or may not apply commercially to the date of delivery?

Mr. THOMPSON. That is it.

Mr. SIMS. That is the effect of that contract?

Mr. THOMPSON. Yes.

Mr. SIMS. Then a person who buys a hedge in your market is certain that he will get the number of dollars' worth it provides, that he has bought?

Mr. THOMPSON. Yes.

Mr. SIMS. To that extent it is an inflexible hedge?

Mr. THOMPSON. Yes.

Mr. SIMS. Now, I want you to explain this. I understood you to compare the transfer of the future contract to the transfer of a check for money?

Mr. THOMPSON. Yes.

Mr. SIMS. And you said your check might be indorsed and transferred around by delivery or otherwise 100 times, but it would be really all only one transaction?

Mr. THOMPSON. Yes.

Mr. SIMS. That is not literally the case on the exchange, is it? Is it not the fact that if I go there and buy 100 bales of cotton on the exchange, somebody of course sells it?

Mr. THOMPSON. Yes.

Mr. SIMS. Then if I go to you within twenty minutes afterwards and sell it out, then another party buys that 100 bales that I have offered, and the man I sold it to has still got it?

Mr. THOMPSON. Yes.

Mr. SIMS. And it is a separate and distinct transaction contracted between another and one party to the original transaction?

Mr. THOMPSON. Yes.

Mr. SIMS. Then that is an actual transaction, potentially, in 100 bales of cotton?

Mr. THOMPSON. Yes.

Mr. SIMS. And you would get an actual separate commission on that?

Mr. THOMPSON. Yes.

Mr. SIMS. Now, I think you have answered as truthfully and logically as a man can, that the hedge can only obtain through the means of the speculative dealer?

Mr. THOMPSON. Yes.

Mr. SIMS. Therefore the speculative interest in this business is always just exactly equal to the investment business? Is not that true?

Mr. THOMPSON. Yes.

Mr. SIMS. Now, then, an investor is interested only in the actual investment. If a man buys cotton to make cloth, he wants cloth made?

Mr. THOMPSON. Yes.

Mr. SIMS. But the investor in future contracts has speculatively the same interest, by reason of creating sentiment through the market, to put up or down the holdings by reason of the value to the investor?

Mr. THOMPSON. Yes.

Mr. SIMS. Now I will ask you if you can not, through your New York or New Orleans cotton exchanges, or any other that I know of, by using money in limited or unlimited quantities, either put up or down the value of a future contract prior to the day of ultimate settlement?

Mr. THOMPSON. No, sir.

Mr. SIMS. You can not do that?

Mr. THOMPSON. I will tell you; in a market where the contract is equitable and fair they can not maintain any abnormal or artificial advance or decline, because there are merchants there who will take advantage of it. If you have a market in which a contract is equitable, and it gives no advantage to either the buyer or the seller and is such a contract as you cited in the beginning, and there is a break in the future market brought about by such means as you say, you will find right there in the market people who are in the cotton business who are willing to take advantage of that and buy the contract and demand the cotton. If they are afraid that when they get the cotton they will lose money on account of some miscalculation, then they might be afraid to do it; but if they know that if they buy that cotton and it is delivered to them, they will pay for it on the basis of the market value of the cotton, on the differences in market value of the cotton; that sort of behavior in the future market, in my opinion, will be largely regulated. Of course we can not help, in any specu-

lative commodity, having fluctuations, depending upon the happening of things that affect the minds of people who happen to be in the market; but to a very large extent, in my opinion, that behavior of the market will be regulated in such an exchange on such a contract.

Mr. SIMS. Now is it not a fact generally that the speculator pure and simple has more ready money, a larger bank account, on which to make transactions or with which to affect the market by the simple use of money than the producer or the manufacturer of cotton would have?

Mr. THOMPSON. I could not answer that. I know that we have at New Orleans cotton merchants who are not speculators who have a good deal of money or resources. Of course they may not have so much money of themselves.

Mr. SIMS. I mean speculators in futures, who never expect to take delivery, only incidentally, who ignore it except when it is advantageous to do so? Have you not stated in reference to some other cotton exchange that exactly what I was describing was being done by men of unlimited money, right in the face of natural economic conditions, that would forbid any such condition growing out of natural laws of supply and demand?

Mr. THOMPSON. I issued a statement, Mr. Sims, not that such a thing was being done in any exchange; I issued a statement saying that a concerted effort, originating in a coterie, in my opinion had precipitated this decline, which in my opinion was not warranted, and I urged those who held spot cottons to hold them until such time as normal conditions were restored. Cottons subsequently went up.

Mr. SIMS. Would it be possible for such a condition or transaction or act as you have there described to have been executed and brought about without a cotton exchange somewhere on which you could make and sell these contracts, without any reference whatever to the natural law of supply and demand?

Mr. THOMPSON. No, I do not believe it could; if you had not had any cotton exchange that could not have happened. But if you had not had any cotton exchange, in my opinion the price that the farmer got for his cotton this year he never would have gotten.

Mr. SIMS. I agree with you exactly, that this year the speculator began so early that the farmer got a great harvest; and I do not mean that sometimes the farmer is not on the winning side. I know the farmer frequently tries to get on it, and makes a mistake; he ought to keep out of it. We are talking about the possibilities of a system of exchange, or a system of operating upon exchanges, by which men of large ready means, by the mere manufacture of contracts, throwing them on the market in unlimited volume, can break down the prestige and temporarily change the price, at a time when the farmer is compelled to deliver a large part of his crop, and when many of them could not take your advice and hold back; and I ask you if such a system of commercial business ought to be permitted or tolerated in any civilized country, if we can prevent it lawfully and properly?

Mr. THOMPSON. Yes, Mr. Sims; as I have always said in these matters, anything that could prevent those untoward happenings in my opinion, would be very advantageous.

Mr. SIMS. That is our only object and purpose, and we do not know how to do it, and we thought maybe you could tell us how to do it and yet leave all the beneficial functions of a cotton exchange in existence. I do not want to embarrass either the producer or the consumer or the merchant.

Mr. BURLESON. Mr. Thompson, you say it is a custom in the South for cotton buyers to receive instructions from their principals advising them in their purchase of cotton to pay so many points off or on the price of futures?

Mr. THOMPSON. Yes; that is the way the purchases are made.

Mr. BURLESON. In the interior?

Mr. THOMPSON. Yes; in the interior.

Mr. BURLESON. You have expressed the opinion to this committee that if by law Congress abolished the sale of future contracts for the delivery of cotton, it would bring demoralization to the cotton trade and result in loss. I want to ask you if operations upon the cotton exchanges can not bring demoralization, and do not frequently bring demoralization to the cotton trade, and loss?

Mr. THOMPSON. I do not think, Mr. Burleson, that the operations of the cotton exchange bring any more demoralization and loss than occurred before the cotton exchanges were even in existence, because we know that the fluctuations have been as violent or more violent before we had the exchange, and as great losses have been made by the cotton producer or by the cotton merchant who has undertaken to hold cotton himself, believing that the market would advance, when conditions did not warrant it, and he has lost the money.

Mr. BURLESON. Yes, Mr. Thompson; but you will admit that facilities for gathering information and the distribution of information with reference to the cotton crop, which makes for steadiness of price, now are very much greater than they were before the organization of exchanges?

Mr. THOMPSON. Certainly; yes, sir.

Mr. BURLESON. And it is this information furnished the trade relating to crop conditions that tends to prevent fluctuations in price, is it not?

Mr. THOMPSON. To discount future conditions, yes; the present price——

Mr. BURLESON. Now, go back to my question. You admit that transactions and operations can take place on these exchanges that result in demoralization to the trade and loss?

Mr. THOMPSON. I think these transactions that happen on the exchanges generally, as a rule, are not the causes of those things, but it is the conditions themselves that are reflected in the cotton exchange.

Mr. BURLESON. Have you not made emphatic statements that operations have taken place on the exchanges resulting in great loss and demoralization when the conditions did not justify it at all?

Mr. THOMPSON. Yes; I did.

Mr. BURLESON. There was a great slump in the price of cotton along about last January, was there not?

Mr. THOMPSON. Yes.

Mr. BURLESON. You made a public statement at that time about the causes of this slump, did you not?

Mr. THOMPSON. Yes, sir.

Mr. BURLESON. I will ask you if you did not say this, I read from one of your home papers.

The New York raid is not a legitimate incident of the cotton trade, either in spot or futures. It is as if a man or set of men for the sake of gratifying a personal grudge and of reaping a personal profit should endeavor to stampede the occupants of a crowded building by the cry of "Fire!" The issue raises the question as to whether a few manipulators shall demoralize a great trade system and go unpunished therefor.

You said that?

Mr. THOMPSON. Yes.

Mr. BURLESON. You made that statement?

Mr. THOMPSON. Yes.

Mr. BURLESON. Was it true?

Mr. THOMPSON. In my opinion.

Mr. BURLESON. Now, if great demoralization resulted to the cotton trade at that time, was it justified by the conditions, and if great demoralization resulted at that time, you say, in your opinion, that it was the result of the existing conditions?

Mr. THOMPSON. I do not think it was. I do not think that the prices at that time were justified by the conditions.

Mr. BURLESON. Can you give this committee any estimate of the loss sustained by the trade as a result of this raid on the New York Cotton Exchange?

Mr. THOMPSON. No, sir.

Mr. BURLESON. Do you know of the Wall Street Journal?

Mr. THOMPSON. I have heard of the paper?

Mr. BURLESON. Is it not a conservative, reputable trade journal?

Mr. THOMPSON. I think so.

Mr. BURLESON. Permit me to read a statement from the Wall Street Journal, and then I will ask you if you think the Journal is justified in the opinion that it here expresses, giving an estimate as to the extent of the loss caused by the slump. This statement of yours which I have read was made on January 20 of this year?

Mr. THOMPSON. Yes, sir.

Mr. BURLESON. This which I am about to read is from the Wall Street Journal of date January 25 of this year. It says:

Probably not more than 2,000,000 bales out of the 10,000,000 estimated for the year's crop had passed through all the stages beyond which commercial and industrial values can be affected before this lowering trend of the market began. That would leave 8,000,000 bales in one form or another, either worked up into textiles or raw cotton, yet to be sold to consumers.

At a low estimate of $70 a bale the volume of values affected would be $560,000,000. An average decline of 15 per cent would be equal to a shrinkage of $84,000,000. Nearly all of this decline occurred within two weeks, or eleven full business days—an average shrinking of $7,636,000 a day.

Do you believe the Wall Street Journal was justified in making that estimate?

Mr. THOMPSON. Well, I do not know.

Mr. BURLESON. See if I can help you. About what was the decline in the price of cotton within those three days?

Mr. THOMPSON. About 3 cents, I think.

Mr. BURLESON. That amounts to $15 a bale, does it not?

Mr. THOMPSON. Yes; that is, if it had been sold at that decline.

Mr. BURLESON. At that decline?

Mr. THOMPSON. Yes.

Mr. BURLESON. Now, if the decline was $15 a bale and there were 8,000,000 bales affected by such decline, that would aggregate $120,000,000, would it not?

Mr. THOMPSON. Yes.

Mr. BURLESON. Then when the Wall Street Journal says that the trade was demoralized to such an extent that a loss was sustained of $84,000,000, it was, as the Wall Street Journal claimed, a conservative estimate of the loss, do you not think so?

Mr. THOMPSON. You say that there was a loss. Now, if everybody had turned loose and sold their cotton at the bottom of that decline, there would have been a loss; but let me ask you something. You have not there all of that article that I wrote.

Mr. BURLESON. I will give you the article. Put your finger on anything that is in it——

Mr. THOMPSON. I do not mean to say that you have not read all that you had, but in that article that you read—I do not believe it is here—I spoke of the fact that on account of discounting the short crop cotton had been forced up during the fall to a price that it never would have reached but for this fact, and that the market had gotten into a technically weak position, because people had continued to buy——

Mr. BURLESON. What do you mean by the market being forced up?

Mr. THOMPSON. I mean that a great many people had bought contracts and had bought cotton.

Mr. BURLESON. You mean, then, that the future market had been manipulated by those——

Mr. THOMPSON. No, sir.

Mr. BURLESON. Well, what do you mean by the market having been forced up?

Mr. THOMPSON. I mean the people who made a study of the proposition concluded that on account of the scarcity of the supply the price would be better later on and justified their opinion by buying cotton and contracts.

Mr. BURLESON. Was it forced beyond the actual value of cotton?

Mr. THOMPSON. I do not know, but the likelihood is in times of speculative activity that that is the case; it is overdone.

Mr. BURLESON. You made a statement with reference to the condition in 1907—during the bear raid of 1907—did you not, over your signature?

Mr. THOMPSON. I have written a good deal, Mr. Burleson.

Mr. BURLESON. I think I can find it. I desire to read it to you, so that you may recognize it.

Mr. THOMPSON. I will say this, that whatever you find, wherever you find anything that I have said on this subject, I do not believe that the conditions, the actual conditions, ought to be the subject of raids, as you may call them, or of cliques or of people who get together for a speculative purpose without regard to actual conditions. That is the position I have taken all along.

Mr. BURLESON. I do not seem to be able to lay my hand on it. It may be Mr. Marsh can tell me where that part of his statement is to be found in the hearings. I read it to him while he was being interrogated. I allude to the statement denounced as a fish story.

Mr. MARSH. This testimony makes rather a large book to go through. I have not struck it this morning.

Mr. BURLESON. I saw it in the hearings this morning. I think I can find it. I want to read it to Mr. Thompson while he is on the stand, and have his opinion whether it is a fish story.

The CHAIRMAN. I take advantage of this interval to remark to gentlemen generally that we want to close this hearing at 5 o'clock, and I trust that interrogatories and answers will be as brief as possible.

Mr. BROOKS. May I ask one question while we are waiting?

The CHAIRMAN. Yes.

Mr. BROOKS. I understood Mr. Thompson to say that he could make more money if this law passed than he can now.

Mr. THOMPSON. No, sir; I said if I took a superficial view that I might think I would be able to make more money, because I sell cotton. I am a cotton factor. The cotton is shipped to me on consignment and I sell it. Now, there has developed in recent years a large interior market. People buy cotton in the interior and it comes through and never touches me, you understand. It passes by. We call these people the f. o. b. traders. It is a very large business in New Orleans. They are able to do that business because they are able to hedge those contracts. If they could not hedge those purchases and sales that they make, I mean that it would cripple the f. o. b. business, and if it did cripple the f. o. b. business I might think it would help me, that the spot business would increase. But as a matter of fact, in crippling the f. o. b. business the disadvantages and the demoralization that would ensue through interfering with the present trade methods would be so great that as far as I am concerned I would lose money, because the profit that I have, the contracts that I have, would necessarily decrease in value by so much as the price that the farmer realized from his cotton decreased.

Mr. BROOKS. You are opposed to this, then, not from the standpoint of your business, but from the other standpoint?

Mr. THOMPSON. I am opposed to it from the standpoint of the cotton producer. I am a friend of the producers.

Mr. BROOKS. If the spinners and cotton producers were both in favor of it, and you could make more money than you do now——

Mr. THOMPSON. I say that I can not make more money. If I took a superficial view of it, I might think I could; but I can not.

Mr. BROOKS. I thought you said you could.

Mr. THOMPSON. No, sir; I can not.

Mr. BURLESON. Mr. Chairman, I have found the statement I was looking for in the record.

Mr. MANDELBAUM. Was it a fish story?

Mr. BURLESON. No, I do not think it was. It was so denounced, but personally I believe it was a true story. I now read this statement from page 482 of the hearings:

> Look as critically as we may, we can find no germane weakness that would account for the sudden collapse of the market. We must look to some outside agency. It is easily found. The slump was the result of a premeditated attack and persistent onslaught by a party of New York operators, backed by ample capital and prestige in speculation.

Did you make that statement?

Mr. THOMPSON. Yes; I think I did.

Mr. BURLESON. Then answer whether it is possible for a party of New York speculators to go upon the New York Cotton Exchange and by systematic effort sell the market price of cotton down; yes or no.

Mr. THOMPSON. Yes; I think it is.

Mr. BURLESON. Was not that exactly what you were referring to when you made that statement?

Mr. THOMPSON. Yes.

Mr. BURLESON. Let me see if you recollect this statement:

If we believed that the present prices were the result of natural and legitimate causes, we would advise our friends to accept these prices and turn their cotton into money without delay. But we do not believe that the present prices are natural or legitimate. The brief experience we have had with the market this season before speculation interfered, showed that consumers were willing to pay the prevailing prices and producers were willing to accept them. If business had been permitted to run its natural course, probably the increased volume of receipts would have gradually lowered prices. This would have been a natural and acceptable result. But when an outside element that knows nothing about cotton and has no interest therein except as a medium for gambling profits, arbitrarily interferes between the producer and consumer and undertakes to fix prices by sheer force of money and manipulation, we believe in suspending the rules and striking with the weapon at hand.

You made that statement?

Mr. THOMPSON. I did, sir.

Mr. BURLESON. Do you believe that it is possible for an organized coterie to interfere between producer and consumer in that way?

Mr. THOMPSON. Temporarily; yes, sir.

Mr. BURLESON. What is the result when an interference of that kind takes place—a cessation of commerce—a stopping of trading in cotton, is it not?

Mr. THOMPSON. Yes; I think so.

Mr. BURLESON. Because the producer ceases to sell and the mill man ceases to buy?

Mr. THOMPSON. Yes.

Mr. BURLESON. It brings about an obstruction and interference with commerce, does it not?

Mr. THOMPSON. Yes.

Mr. BURLESON. Now, I want to ask you, what would be the effect of this sort of a transaction upon the New York exchange—I read from one of the New Orleans papers, a cable report from Liverpool:

The cotton market Saturday morning was treated to the most sensational piece of bear raiding in its history. Private cables were unanimous in attributing the decline there to heavy American selling, and one of the cables estimated it at fully 125,000 bales. The result of this huge selling was a break in the English market which at one time amounted to 44 or 46 cpoints.

Their points are just twice ours—two for one?

Mr. THOMPSON. Yes.

Mr. BURLESON. That would be 88 or 92 points with us, would it not?

Mr. THOMPSON. Yes.

Mr. BURLESON. (reading):

The ring was thrown into wild confusion by the manipulation going on. They threw overboard their cotton by the thousand bales, and to this was added thousands of bales from speculators on the bear side.

What would be the effect of that kind of speculation on the New York and Liverpool exchanges?

Mr. THOMPSON. If that was an authentic and true statement, the effect would be to temporarily depress prices.

Mr. BURLESON. Did you recognize what paper I read from?

Mr. THOMPSON. Yes; that is the opinion of that reporter of that paper.

Mr. BURLESON. Is that a reputable trade journal?
Mr. THOMPSON. Yes.
Mr. BURLESON. Looked to by the cotton trade?
Mr. THOMPSON. Yes; considered by the cotton trade.
Mr. BURLESON. Take the paper and tell me if cotton did break $2 a bale on that day. There are the quotations [handing paper to witness].
Mr. THOMPSON. I believe it did. I do not remember the particular day.
Mr. BURLESON. But you remember the transaction, do you not?
Mr. THOMPSON. I remember when the market declined.
Mr. BURLESON. That was on February 19?
Mr. THOMPSON. Yes.
Mr. BURLESON. That is a different trade demoralization from the one I referred to a moment ago, the one taking place in January?
Mr. THOMPSON. Yes.
Mr. BURLESON. On this occasion the price went down from 88 to 92 points, between $4 and $5 per bale?
Mr. THOMPSON. Yes.
Mr. BURLESON. Now, Mr. Thompson, is it not a fact that your exchange is helpless to contend against conditions of that kind—unable to resist the effect of such large operations?
Mr. THOMPSON. No; our exchange responds, of course, Mr. Burleson, but we are not helpless. I believe very firmly that in many instances the temper of our people in our exchange has stopped this very thing.
Mr. BURLESON. Let me ask you directly if your exchange is not absolutely helpless whenever a transaction of this kind takes place on the New York exchange; do not your prices necessarily respond thereto?
Mr. THOMPSON. Our prices respond, but I would not say that we are necessarily helpless.
Mr. BURLESON. Oh, if Rockefeller were to go on your exchange——
Mr. THOMPSON. Yes.
Mr. BURLESON (continuing). And when these future contracts were offered for sale, on the New York Cotton Exchange or the Liverpool Cotton Exchange, if he went into the New Orleans exchange and stood ready to buy every one offered——
Mr. THOMPSON. Yes.
Mr. BURLESON (continuing). You could prevent violent declines, of course; but are not conditions such that you admit you can not prevent the effect of these speculative transactions, and have you not stated over your signature time and time again——
Mr. THOMPSON. We can not prevent fluctuations. We are going to have them.
Mr. BURLESON. I am not talking about fluctuations; I am asking you if it is not a fact that your little exchange is so weak—I will admit now, for the sake of argument, that you have described an ideal exchange. This is for the purpose of the argument.
Mr. THOMPSON. Yes.
Mr. BURLESON. In your statement you have described an ideal exchange.
Mr. THOMPSON. Yes.
Mr. BURLESON. But is it not a fact—and I do not want now to hurt your feelings, but is it not a fact—that your exchange is so puny and

weak that it can not stand up against the gambling on the New York Exchange you referred to in the statements which I have read?

Mr. THOMPSON. No, sir; it is not a fact.

Mr. BURLESON. Did you stand up against it on the occasion referred to?

Mr. THOMPSON. No; we did not. We did not stop it; we could not stop it.

Mr. BURLESON. That is what I asked you. Could you stop it?

Mr. THOMPSON. But the market broke rapidly.

Mr. PINCKARD. It occurred on Saturday morning, before the New Orleans exchange opened; a half day in Liverpool.

Mr. THOMPSON. As I say, when things of that kind come they come suddenly, as a panic, and people are not prepared for them. That is why they succeed when they are premeditated, because the time and place and condition of the market are selected. Now, as Mr. Pinckard suggests, that occurred on Saturday. Those—I do not know if there were any such orders, but I have no reason to doubt it. That is a very bright young man and a good young man that writes that column; but that is his opinion only as to what it is. We were only open two or three hours, and subsequently the market reacted.

Mr. BURLESON. Since you have given the reporter a character certificate of that kind, I will read a further part which I did not intend to read. He says:

A nice time to have it, with a bill to kill futures being now considered by the Congress.

[Laughter.]

Mr. THOMPSON. Yes.

Mr. BURLESON. Now, when futures decline as they did on February 19, in accordance with that statement, and you say it is your recollection that they did so decline——

Mr. THOMPSON. Yes; I know that they did decline.

Mr. BURLESON. Then these limits that had been given the cotton buyers through the interior to buy so many points off or on futures are controlled at once by those declines?

Mr. THOMPSON. Ah, but the price of cotton is not——

Mr. BURLESON. But I am asking you the question if the spot-cotton buyer through the interior, who has instructions from his principal to buy so many points on or off futures, does not change his offers of price with such fluctuations? Whenever futures fluctuate, of course, the price that he is authorized to give fluctuates with them?

Mr. THOMPSON. Yes.

Mr. BURLESON. That is all I wanted. You have answered the question. Now, there is one more phase of it.

Mr. PINCKARD. You might elaborate that, Mr. Thompson.

Mr. THOMPSON. I have already elaborated.

Mr. PINCKARD. When futures go down 50 points the limit does not necessarily go down 50 points, at all.

Mr. BURLESON. Just one more phase of it and then I am through. Chairman Scott asked you the question, based upon a statement of yours, whether this excessive speculation by irresponsible persons could not be prevented by increasing the margin that was required to be put up, and you expressed the opinion that it could. What is the ordinary margin per bale required by the New York and New Orleans cotton exchanges?

Mr. THOMPSON. I do not know what the New York Exchange requires, and I am not in the future business at New Orleans. Perhaps you had better ask some of these gentlemen who are.

Mr. BURLESON. But you know, do you not? I never bought a bale of futures in my life, and yet I know.

Mr. THOMPSON. I have known the time, when the market was in a certain condition, when it required $10 a bale margin.

Mr. BURLESON. But what margin is required ordinarily?

Mr. THOMPSON. There is no fixed rule. The brokers try to protect themselves in the foreign market.

Mr. BURLESON. I was not asking you about the foreign market. I said in ordinary times, what is the ordinary margin?

Mr. GLENNY. In ordinary times the amount of margin demanded depends entirely upon the solvency or the considered solvency of the man who is operating. Credit is given to him in the same way that a bank extends credit to an individual who comes into the bank to borrow money. If a man, in their opinion, is worthy of a credit, he gets it, and to the extent that I think he is worthy of it. If he is worthy of a credit, I call for a certain margin, dependent upon what I consider the solvency of that man, and the reliability of what he does in commercial transactions. It may be $1 or it may be $2 or anywhere up to $10, as the case may be.

Mr. BURLESON. Now, the question was, what is it ordinarily?

Mr. GLENNY. There is no fixed rule. I know of no fixed rule.

The CHAIRMAN. I understand the gentleman has answered. He says there is no fixed rule.

Mr. PINCKARD. I will go still further and say that my business is of such a character that I do not call original margins on anybody. It is entirely a matter of credit. I have not an original margin customer on my books. There is no rule.

Mr. GLENNY. I have had men owe me over $100,000 and never worried a minute about it.

The CHAIRMAN. Do you desire that any of the other gentlemen of your committee make a formal statement, Mr. Thompson?

Mr. THOMPSON. No, sir; they are here and will be pleased to answer any questions that may be asked of them.

Mr. MANDELBAUM. Mr. Chairman, may I ask the witness a question?

The CHAIRMAN. Yes.

Mr. MANDELBAUM. You stated when you were asked as to how many grades are deliverable under the New Orleans contract, that there were nine?

Mr. THOMPSON. Yes, sir.

Mr. MANDELBAUM. At least I understood you to say so.

Mr. THOMPSON. Yes.

Mr. MANDELBAUM. On what do you base that statement?

Mr. THOMPSON. If you listened to me, sir——

Mr. MANDELBAUM. I listened very carefully.

Mr. THOMPSON (continuing). I said there were nine grades in the limit, but that each one of those grades had different qualifications, which increased the number of samples that might be delivered on contract.

Mr. MANDELBAUM. And at different prices?

Mr. THOMPSON. Yes.

Mr. MANDELBAUM. Now, at how many different relative prices from middling can grades be delivered on your exchange?

Mr. THOMPSON. Well, I have not figured it out, sir; but, as I have stated, it makes no difference how many grades——

Mr. MANDELBAUM. I did not ask you that. You have referred to the number of grades several times that were deliverable on the New York Cotton Exchange, and I ask you now, as president of the New Orleans Cotton Exchange, how many different distinctions are deliverable—if you do not want to call them grades I will call them distinctions—distinct by a different money value, under your contract?

Mr. THOMPSON. I have nothing to hide, sir, and I will file that with the committee.

Mr. MANDELBAUM. I did not say you had anything to hide.

Mr. THOMPSON. I will file with the committee a statement showing what cottons can be delivered on contract.

Mr. MANDELBAUM. Are you president of the New Orleans Cotton Exchange?

Mr. THOMPSON. I am, sir.

Mr. MANDELBAUM. Do you not know how many grades are deliverable?

Mr. THOMPSON. I am testifying before the committee, and I am not answering your questions.

Mr. MANDELBAUM. I have a right to ask that question, Mr. Chairman, have I not?

The CHAIRMAN. What is the question?

Mr. MANDELBAUM. As to how many different distinctions are deliverable under the New Orleans contract as a contract.

Mr. BURLESON. Mr. Thompson has said to him that he would put in the statement; that he is testifying and does not want to state it without being accurate about it.

The CHAIRMAN. The committee will, of course, allow Mr. Thompson to answer in any way he sees fit. He is under oath. We can not dictate his answer, Mr. Mandelbaum.

Mr. MANDELBAUM. Well, I know; but should he not be called upon to leave with your committee a copy of their rules as to the number of grades or distinctions which are deliverable under their contract, just as we have done?

The CHAIRMAN. I understand that Mr. Thompson declined to answer simply because he did not have the data, and he said he would file them.

Mr. GLENNY. He said he would do that very thing.

Mr. SUMNERS. Mr. Chairman, may I ask the witness one or two questions?

The CHAIRMAN. Yes.

Mr. SUMNERS. Mr. Thompson, you stated that as a cotton merchant you base the limit given to your salesman, your purchasers, throughout the country on the future market. Will you please explain to the committee just how you arrive at the limit that you give your purchasers throughout the country—your men?

Mr. THOMPSON. Well, Mr. Sumners, I am not in that business. As I have explained before, I am in the factorage business.

Mr. SUMNERS. All right. Let me ask you if this is not the way it is usually done; you take the future——

The CHAIRMAN. If the witness says that he is not in that business and declines to answer a direct question, he would hardly care to

answer a question that you asked after a preliminary statement, would he?

Mr. THOMPSON. I am willing to answer to the best of my knowledge.

Mr. SUMNERS. I think he can answer this.

The CHAIRMAN. I thought you were inquiring as to some future transaction.

Mr. SUMNERS. No, sir; this is a spot transaction about which I want to ask him.

The CHAIRMAN. Very well.

Mr. SUMNERS. A merchant who is in New Orleans has a man at Vicksburg who is buying cotton for him.

Mr. THOMPSON. Yes.

Mr. SUMNERS. Now, in making up that limit he has to put on so many points for transportation, does he not?

Mr. THOMPSON. Yes.

Mr. SUMNERS. Then, does he take the future quotations of the day? What future quotation does he take as a basis? You know those future quotations run over several months. What month does he take as a basis for his limit?

Mr. THOMPSON. He generally takes some active month, some near-by month that is active.

Mr. SUMNERS. Then does he figure cotton on or off that month?

Mr. THOMPSON. Yes; and he offers for such grades, good middling and strict middling, so much on or off March quotations. February is an inactive month. He will tell his buyer to pay so much for strict middling cotton, so many points on March.

Mr. SUMNERS. Does he pay more than the future quotations for March?

Mr. THOMPSON. For strict middling?

Mr. SUMNERS. I am talking about on a middling basis, for middling. Does he pay more than the future quotation for March?

Mr. THOMPSON. That depends.

Mr. SUMNERS. Now, Mr. Thompson has testified before this committee that a spinner would pay a half a cent more for a future contract provided he could get just the sort of cotton that he wanted on that contract. The future contract being the basis upon which the price is made to the producer, and that market being discounted 2 per cent, or half a cent a bale less, does it not to that extent injure the man who produces cotton to have the basis of his market fixed by the futures?

Mr. THOMPSON. Well, it is not fixed, Mr. Sumners. For convenience in calculation the merchant figures on so many points on March for a certain grade, or on the future market for a certain grade. Now, that is about, or near about, what he can buy that cotton for without any reference to the margin.

Mr. SUMNERS. I just wanted to know whether that was injurious to the producer or not?

Mr. THOMPSON. I do not think it is, necessarily, because if futures decline, and he can not buy strict middling cotton at 25 points on, he will offer 50 points on. It does not necessarily follow that the producer has got to sell his cotton when the market goes down, because the buyer may have to come up and add sometimes 15 points on or 25 points on, and sometimes he buys the cotton at 35 points on.

TESTIMONY OF MR. EDMUND J. GLENNY, VICE-PRESIDENT OF THE NEW ORLEANS COTTON EXCHANGE.

(The witness was sworn by the chairman.)

Mr. GLENNY. There are one or two points which I think have not been touched on. I am a future broker, and for that reason I may probably be considered as a buyer, but I do not have to be a future broker, and I might engage in some other cotton business without the necessity of being in the future market. The fact of the matter is that we have left out of sight entirely the safety which is held out to the cotton producer through the future market. We have not considered the basis upon which the largest consuming market in the world buys and carries sometimes 1,000,000 and sometimes 1,500,000 bales of the southern cotton producer's product.

The Liverpool Cotton Exchange is by far the largest distributing—consuming—market in the world, and every bale of the cotton which lies in that stock awaiting the demands of the spinner is marketed through the future market. The banker, in making his loan to carry that cotton, absolutely requires that the merchant who borrows that money shall have a hedge against it in the future market. Their settlements are made but once a week, notwithstanding the fluctuations, showing the feeling of security which is engendered by the future market in the mind of the financier who lends this money; and we can hardly say that the English banker is anything but a shrewd, bright, well-informed financier. London represents the money market of the world, and in London this cotton is to a large extent marketed.

It is true that the passage of a bill like this in America would not eliminate the Liverpool market, but it would throw into the hands of the Liverpool market the very thing which Mr. Burleson complained of in regard to rates, and so forth. It is hardly natural that the man who is buying your product, particularly when he has not even the national pride or the national feeling toward the producer, should give you more for your cotton than it is worth; and in that connection I want to say that a man with whom I am very intimate, and who does a very large export business, when asked by me what would be the effect of such a bill, said: "If it were not for my friends, I would give a very large sum of money to have this bill passed through the United States House."

That is one phase of the question. Another is this: Somebody asked Mr. Thompson about the spinner taking cotton on contract. For a great many years—I will not say a great many years, but for four or five years—there was hardly a month passed over my head that I did not receive, upon the New Orleans future market, cotton which went directly to the mill, consumed by the mill and not dealt with otherwise; which went right from my office to the mill. They bought the contract in preference to the spot cotton; so that it is not an impossibility for a mill to receive cotton on contract. They did not always get the exact grades which they wanted to spin.

This matter of margins I think I explained; I do not know whether satisfactorily or not.

The CHAIRMAN. I have a question or two to ask in reference to that, when you have finished your statement. Have you anything further to say along general lines?

Mr. GLENNY. There is another point which Mr. Thompson has already touched upon, as to the insurance feature of this matter. I have touched upon that myself, but I want to cite the year 1907, which has already been brought into the testimony to-day. I think that if those who know anything about the prices of the cotton market, whose business it was to be interested in the prices, will look at the records, they will find that those commodities in which there were future markets suffered less through the depression than any other commodities in the world. In spite of the fact that your state bank stocks and other things decline to a point where banks failed, not a single cotton merchant worthy of the name failed. And why? Simply because those who were cotton merchants and not speculators did their business on a business basis and carried a hedge, either buying or selling futures to protect themselves, and it mattered not to them whether the market went up or down. That was their protection. The protection to the farmer was this: Here was a place where in one moment he could sell every pound of his production, and feeling that that place existed buoyed up his spirits to such an extent that he did not have to go into the market and sacrifice his product for fear that when he wanted to sell the other man would not want to buy.

Another thing is, as I know of my own knowledge, that a great deal of money was brought over from Liverpool and from European countries, which was sent out into the country in cash. It took up that cotton which was forced on the market through stress of circumstances, and that cotton was hedged in the future market. I can say from my own knowledge that I carried many thousands of bales of cotton handled in just this way. When things settled, the hedge was gotten rid of and the spinner had his cotton for whatever purpose he wished. Right now in New Orleans a great deal of cotton is being taken up on March contract, which is being distributed to the mills through the third party, who had bought the future contract. Had it not been for that the mill men could not have bought the cotton from the merchant, the merchant could not have sold the cotton to the mill men.

The CHAIRMAN. That phase of the question has been very fully covered.

Mr. GLENNY. Now, there is another thing. What brought about the future business and the cotton exchange? Let us look back just a little. The future business and the cotton exchange was brought about through sheer necessity, and it was not a thing that suddenly sprang into existence by a preconceived plan. It was a thing which existed long before the rules and regulations of the exchanges were published to the world. The merchant bought or sold cotton; transactions were made in an indiscriminate way around the cities. In New Orleans I know it was true. The exchange simply was brought about to see that fair play was given to the buyer and the seller for the protection of everybody.

The CHAIRMAN. That phase of the subject has also been pretty thoroughly covered, and perhaps it would meet the necessities of the present case if you would permit me to ask you just a few questions.

Mr. GLENNY. Yes.

The CHAIRMAN. About the nature of your future transactions?

Mr. GLENNY. Yes.

The CHAIRMAN. Is it the practice of the brokers on your exchange to execute orders that may come to them for future contracts, from anybody who is financially responsible, or who sends a check along with the order?

Mr. GLENNY. From anybody that I know or feel satisfied is a responsible party. Bear in mind that if a man is not responsible I stand between him and the other man, and I would lose my money.

The CHAIRMAN. My question had reference to orders that came from people whom you do not know, over the country.

Mr. GLENNY. I naturally would not trade with a man I did not know anything about.

The CHAIRMAN. Not even if his order contained a check for a reasonable margin?

Mr. GLENNY. Not unless within my discretion, and I had Bradstreet and Dun to refer to. If a man has not credit I do not want his business, and I care not for his margin.

The CHAIRMAN. I think you see what I am driving at.

Mr. GLENNY. Yes; I see. I would rather have moral responsibility than cash.

The CHAIRMAN. You are answering as you would answer if you were in the banking business; but the general impression is round about the country, you know, that Tom, Dick, and Harry can gamble on the exchanges simply by putting up a small margin.

Mr. GLENNY. Mr. Scott, I will show you what gives rise to that. You are confusing—and it is unfortunate that it is so, but it is—the bucket shop with the cotton exchange.

The CHAIRMAN. Oh, I am not confusing the two at all.

Mr. GLENNY. In a bucket shop anybody can trade who has money, and the less money he has the better the bucket shop likes it.

The CHAIRMAN. Yes; and I could show you letters from the brokers of the Chicago Grain Exchange, which is not a bucket shop——

Mr. GLENNY. I do not know anything about what they do.

The CHAIRMAN (continuing). Which make it perfectly patent that anybody who will send in an order for 5,000 bushels of wheat and cover it with a check to the amount of 4 cents a bushel can have that order executed. What I was driving at——

Mr. GLENNY. I do not know about that, but——

The CHAIRMAN. Will you please wait until I finish my question, so as to keep the record straight? I was trying to find out whether any such transactions as that were carried on on the New Orleans Cotton Exchange.

Mr. GLENNY. I would not permit a man that I knew nothing of to operate on my books, even with a margin. If he put up a margin, of course, that would buy the cotton, that would be a different matter.

The CHAIRMAN. Do you think your practice in that respect is followed——

Mr. GLENNY. I think it is very general.

The CHAIRMAN. If you will just wait until I finish my questions, I will be obliged to you. The reporter can not get his record right if we both talk at once. I will repeat the question. Do you know to what extent the practice which you say you follow is followed by other members of the New Orleans exchange?

Mr. GLENNY. I have access only to my own books, and as a matter of fact I do not know; but in my opinion, I believe the business is not done as you describe. A man must know something of the responsibility of the parties who are trading on his books.

The CHAIRMAN. Mr. Thompson suggested that perhaps one way to reach the evil of overspeculation, or speculation only, on the exchanges might be to require greater margins to be put up. If margins are not accepted on the exchange, if transactions are wholly a question of credit, and brokers on the exchange do not do business except for persons whom they know, there would not be much of an opportunity to enforce that kind of a rule, would there?

Mr. GLENNY. I might know a man, and yet deem that that man was required to put up a margin. I would therefore ask a margin in proportion to the credit I thought he ought to have. Some men I have asked $10 a bale from this year. Others I have asked nothing from. I have no fixed rule as to the amount of margin I require.

The CHAIRMAN. But so far as you know, that is not the custom of the members of the New Orleans Exchange, to execute the order of anybody who may send them in a margin with the order?

Mr. GLENNY. I do not think it is.

The CHAIRMAN. With a check for a margin?

Mr. GLENNY. No, sir; I do not think it is.

The CHAIRMAN. Unless you have something further to offer, I believe there is nothing more. We are very much obliged to you. Mr. Thompson, did you wish to present any other members of your committee? We have only a very few minutes left.

Mr. THOMPSON. No, sir; we have had all the opportunity we desire.

The CHAIRMAN. We are very much obliged for the information you have given the committee.

Mr. Neville, will you be kind enough to respond to a question or two?

Mr. NEVILLE. Yes, sir.

ADDITIONAL TESTIMONY OF MR. GEORGE W. NEVILLE.

(The witness had been previously sworn.)

The CHAIRMAN. Since you were before the committee on the former hearing I have come into possession of two or three reports from a committee which was formed for the purpose of circulating information as to the plan proposed to extend the system of certificating cotton, of which committee Mr. James F. Maury was chairman. You are familiar with the reports of that committee?

Mr. NEVILLE. Not entirely. The matter is something that the committee has considered for a number of years, but as they have gotten along and thought that they had one part of it about worked out, they have run against legal obstacles, so that they had to reconsider it, and I think the entire report is to-day in the hands of the committee, who are trying to overcome some legal objections in the way of issuance of warehouse receipts in the southern warehouses; that is, to make them conform to requirements necessary so that the banks would advance money on them.

The CHAIRMAN. I should like to read just a few extracts from the third report of this committee, to give you and the members of the

committee an idea of the sentiments that are expressed there. They say, on page 2 of this third report:

Some of our members fear that because it will be made possible to fulfill our contract it will diminish the speculative business.

That would seem to imply that the present contract, which this committee is seeking to change, was at the time such that it would not be fulfilled; and it would also seem to imply that some members of the New York Cotton Exchange would look upon the diminution of the speculative business of that exchange as an evil. Those are fair implications, are they not, both of them?

Mr. NEVILLE. No. I would say that, on the face of it, it might seem fair to one who was not familiar with the composition of that committee or with the business conducted on the exchange. I want to state to you gentlemen that Mr. Maury, as Mr. Marsh stated, is one of our very respected members, but he has not been in the active cotton business for a great many years; and when I say a great many years I do not mean five years, or ten years, but more than that. That is one of his hobbies, and when people have hobbies the New York Cotton Exchange is always ready to give them an opportunity to work them out and see if they can be made of practical benefit. I put that proposition as to the value of spinning grades of cotton before your committee. I want to say that I am looked upon as having wheels in my head on that subject; but I think I am going to make good on it. I think, while on its surface that report would indicate what you have said, when you know the composition of the committee and the difficulties they have to overcome in the differences in the laws in the Southern States regarding the liability of warehouse receipts you will not look upon it in that way. The banks are not free lenders of money, except in two States, on warehouse receipts.

The CHAIRMAN. I am not interested in the plan that the report was discussing; but the report contains statements that seemed to be extremely significant as to the present method of conducting business on the New York exchange. In your answer to all of these reflections upon those methods, I understand you to express a different opinion?

Mr. NEVILLE. Yes.

The CHAIRMAN. And so I will not ask you to answer any more; but I would like to read just one more extract here.

Mr. HUBBARD. Just one thing on that line, Mr. Chairman. I think the meaning of that is that the contract would be fulfilled in other places besides New York; that is, that cotton would be delivered in Augusta, or Norfolk, or Memphis, or Columbia, S. C., instead of being delivered in New York.

The CHAIRMAN. Well, that construction could hardly be put upon the paragraph which I shall now read, from page 8 of this third report:

The almost entire divorce of the spot business from the future business in our market has caused a false, an unfortunate, and a very hurtful idea to prevail in our exchange, especially among the younger and more recent members. The two kinds of business are considered as inimical. The buyers and the sellers of futures are considered as natural enemies. The buyer is supposed to buy futures because the cotton will not (we had almost written "can not") be delivered to him; and the seller is supposed to sell because the buyer does not want the cotton and will not call for it. It is needless to say that this is reducing legitimate business and legitimate speculation to the basis of gambling; it brings discredit on the exchange and its members. The exchange must take the position, before the country and the law, that its contracts are genuine business and not gambling—

That implies, certainly, that the present position of the exchange gives the country warrant for the understanding that its contracts are not now genuine business, but are mere gambling—

because they can be fulfilled whenever delivery is called for, and that every precaution is taken to insure the validity of the contract. How can we claim this position if we depend upon a stock so small that it tempts wealthy gamblers at almost any time to "corner" our market.

If those conditions exist to any extent, Mr. Neville, have you any suggestion to make as to changes that might be made in your rules that would eliminate the evils which have given rise to the distrust under which the exchange is now resting?

Mr. NEVILLE. That is the opinion of Mr. Maury as chairman of that committee, in which I do not concur. In the conditions that he describes there he entirely overlooks two important factors. He takes the stock of cotton, the certificated stock, in New York as being all the available stock against the contracts that may be out in market, when as a matter of fact that stock embraces cotton owned by cotton merchants who have hedged that cotton on the New York market by selling contracts. Whether that cotton is stored in Oklahoma City or in Galveston or in Houston or any other interior southern market, wherever it may be, in case of necessity that cotton is either brought there for delivery or is bought in and transferred to someone else to deliver. I want to illustrate that with this one illustration right here. My firm to-day has cotton stored in Houston, Tex., and in several warehouses in South Carolina, and we have future contracts sold against them. Now, if we can not sell the spot cotton to spinners between now and May, that cotton comes to New York and is delivered on May, so that it is just as much New York stock as if it was part of the 146,000 bales certificated there to-day.

The CHAIRMAN. Yes; that ground was very carefully covered in your previous statement, and I think we all understand your position upon that, and your answer to the specific attack. What I am now trying to get your answer upon is this: Admitting, as I think you do, that it is unfortunate, to say the least, that outsiders—rank outsiders knowing nothing about the cotton business—should be able to engage in future transactions on any exchange with no other thought in their minds than to gamble on the margin of prices, have you any thought in your mind, admitting that to be so, as to a remedy?

Mr. NEVILLE. Yes, I have two ideas of a remedy. One is to raise the cash margin so high as to probihit it, and the other is to appoint a guardian by law for those people.

The CHAIRMAN. Well, we will not consider the second; but how can you raise the margin so high as to probihit it, in the face of the statements made by yourself and other gentlemen, that no margin is required when a man is regarded as solvent?

Mr. NEVILLE. Simply because the fact has been referred to here by other gentlemen and myself that the moral standing and worth of a man are looked to by us rather than the margin that a man puts up, you must not overlook the fact that that class of men have some right to buy or sell cotton. Now, you asked me about a rank outsider who wants to speculate. He is not the man we have been talking about. They are two distinct classes of people.

The CHAIRMAN. Well, I will not go any further on that.

Mr. THOMPSON. Mr. Chairman, will you indulge me just a moment?

The CHAIRMAN. Yes.

Mr. THOMPSON. In my testimony before the committee I made the statement that we have had one revision this year. Now, in the record that statement will appear without any qualification. I want simply to state that the reason there has been but one revision of grade differences is that this crop has been an early crop and a high-grade crop, and there have not those changes occurred. In other words, the changes in our market take place and the revisions take place when the changes require them.

Mr. GLENNY. I want to add to that, that it is a law in the exchange that any member of the exchange can call into question, through the secretary of the exchange, the differences or the price of the spot-cotton market. It is mandatory upon the secretary of the exchange to call that committee together, and for the committee to go out and examine and see whether the complaint of the member is correct or not. That is done so as to absolutely put it within the power of anybody, large or small, to get justice on the exchange.

The CHAIRMAN. At various times during these hearings the report of Mr. Herbert Knox Smith has been under discussion, and at some time the question has been raised as to his qualification for conducting that inquiry, and as to the sources of the information which he embodied in his report. I thought it only fair to ask Mr. Smith to send to the committee a brief statement in answer to those questions, and he has done this, and I will take the liberty, without objection, of filing this statement as a part of the record.

Inclosing these hearings I should like to say to Mr. Brooks, and to Mr. Neville and his committee, and to Mr. Thompson and his committee, that the Committee on Agriculture feels under great obligations to each and all of you for the information you have given us and for the patience and good humor with which you have submitted to the interrogatories. We realize that we have for consideration an extremely important question, one that touches practically a great many wide interests, and there is no thought or disposition on the part of any member of this committee to do anything else than to give the most careful consideration to the opinions which have been expressed here, and to weigh most deliberately the information which has been brought before the committee. Have any members of the committee anything further to say?

Mr. MARSH. Mr. Chairman, may I ask whether the statement of Mr. Herbert Knox Smith is to be embodied in the record?

The CHAIRMAN. It is to be embodied in the hearings. It is not controversial at all. He simply states the sources from which he drew his information, the places which he visited, and other facts connected with the report, and summarizes very briefly the conclusions reached in the report. There is nothing controversial in it, whatsoever.

STATEMENT OF MR. HERBERT KNOX SMITH, COMMISSIONER OF THE BUREAU OF CORPORATIONS.

Mr. SMITH. Whatever special knowledge I have of the facts of speculation is based mainly on the investigation made by the Bureau of Corporations into the cotton exchanges. A resolution of the House of Representatives of February 4, 1907, requested us to make

a particular study of the influence upon the prices of cotton exerted by the character of future contracts on cotton exchanges and deliveries made thereon.

Pursuant to this resolution, the bureau has made a complete report in five parts; parts 1, 2, and 3 having been issued in May, 1908, and parts 4 and 5 in December, 1909, covering a total of about 900 printed pages.

In these reports we set forth most of the evidence before us, all of the essential facts and the conclusions from those facts, having done this in the most thorough, serious, and careful manner possible. I do not have anything to add to the discussion therein contained, nor do I now desire to discuss, offhand, and without referring to the great mass of evidence which we have used, the facts and conclusions which we have already completely and carefully elaborated and printed. Any such offhand discussion would necessarily be extremely incomplete, because no man can carry such a mass of data in his head, and would be merely a most unsatisfactory rehash of the complete printed discussion. In other words, were I to enter into any such detailed discussion I would simply be obliged to read what we have already printed.

My sole purpose in availing myself of the invitation of the committee is to give the committee an idea of the sources of information upon which the report was based, the methods by which it was treated, the amount of work involved, and certain other details that bear upon the validity of the facts therein stated.

A brief statement of the nature of the said report is desirable at this point to show the nature of the evidence used. Part 1, with nine chapters, deals principally with the vital question of so-called "fixed differences," a system which is used on the New York Cotton Exchange. Subsidiary to this is a discussion of the alleged abuse of power by the New York revision committee, complaints against the commercial difference system, which is used in New Orleans, and a consideration of certain suggestions made by various parties for improvements in the New York system.

This part almost wholly consists of statements furnished by the exchanges themselves and conclusions directly deduced by the bureau therefrom, the evidence being submitted along with the conclusions. Both in the case of the discussion of fixed differences and on less important points views on both sides, from various interests, are quoted. Price quotations, the principal data in part 1, are forcibly presented by charts.

Part 2, with four chapters, deals with questions of classification of cotton. The evidence consists mainly of figures furnished by the exchanges, quoted views of various parties, and the only conclusions put forward by the bureau are based directly on evidence obtained from the exchanges, with the exception that the bureau points out certain probably desirable results from a greater uniformity of cotton standards.

Part 3, with two chapters, discusses the range of grades of cotton deliverable, gives data from the exchanges as to variety of grades actually delivered, considers and comments on various changes suggested, and quotes views of various parties. This part dealing, as it does, largely with suggested improvements, required consultation with many different interests in the cotton industry.

Part 4 deals with the effect of future contracts on the prices which the producer receives for cotton, after a résumé of previous parts and a brief description of the system of buying cotton in the South. The first two chapters, a very important part of the entire report, consist almost entirely of figures on prices obtained (*a*) from the various exchanges, and (*b*) from the records of numerous cotton merchants. These prices are set forth in about 23 tables. These prices are then reproduced graphically in the shape of 14 charts, which speak for themselves. Conclusions in these first two chapters are practically mathematical demonstrations from incontrovertible facts. The last chapter, chapter 3, discusses a number of arguments and objections which have been made to prior parts of the bureau's report, certain legal questions of minor importance, and certain elementary economic propositions which apparently needed to be stated in view of some arguments advanced by the defenders of the New York fixed-difference system.

It thus may be said that while a small part of the report deals with questions open to argument, probably nine-tenths of it is in the nature of mathematical deduction from figures and market conditions, furnished mainly by the exchanges themselves and members of exchanges, thrown into available form by the bureau, and the salient points therein commented upon.

As the bureau has been carrying on at the same time with the cotton work inquiries into some seven or eight other subjects, it is obvious that most of the field and detail work on the cotton report must, in the first instance, be done by my assistants. During the course of the work I visited both New York and New Orleans, talked with members of those two exchanges, interviewed various dealers in cotton, and directed the field and office work of my assistants. Most of the text of the report was written by my assistants, especially by Mr. Conant, now the deputy commissioner of the bureau, but all of it was read in manuscript and in proof by me at least three times, was carefully revised by me, in cooperation with my assistants, and I digested it into the shape of final summaries, so that I was at all times strictly cognizant of the nature of the material, the progress of the work, and the merits of our conclusions.

I. EXTENT OF FIELD WORK DONE.

Most of the bureau's work was concerned with the only two cotton exchanges in the country where a future business is conducted, to wit, those of New York and New Orleans. The agents of the bureau, however, visited many other exchanges.

Territory covered.—During the course of the investigation the following points were visited:

Alabama: Mobile, Montgomery, Selma, Tuscaloosa.
Arkansas: Little Rock, Beebe.
Georgia: Atlanta, Augusta, Lagrange, Macon, Savannah, Union City.
Louisiana: New Orleans, Shreveport.
Massachusetts: Boston, Fall River, Fitchburg, New Bedford.
Mississippi: Natchez, Vicksburg, Yazoo City.
New York: New York.
North Carolina: Charlotte, Goldsboro, Greensboro, Raleigh, Salisbury, Wilmington.
Oklahoma: Oklahoma City.
Pennsylvania: Philadelphia.
Rhode Island: Pawtucket, Providence.

South Carolina: Bennettsville, Charleston, Columbia, Greenville, Sumter, Spartanburg.
Tennessee: Memphis.
Texas: Dallas, Galveston, Houston, Waco.
Virginia: Norfolk.

In visiting these various places the representatives of the bureau met cotton interests from numerous other points. For instance, at Boston the treasurers of a number of mills in northern New England who maintain offices in that city were interviewed; in New York a number of foreign interests, including several members of the Liverpool Cotton Association, were seen. Again, at the international conference, at Atlanta, in October, 1907, there were interviewed a number of prominent British and continental spinners and manufacturers.

Interests interviewed.—Agents of the bureau interviewed about 350 individuals, the majority of them being cotton merchants, but the list also contains a representative number of cotton factors, brokers dealing in futures, planters, farmers, representatives of producers' organizations, and many spinners. In all cases the bureau endeavored to select representative and well-informed men in all of the respective branches for the purpose of obtaining interviews. Particular care was taken to secure opinions from all the different standpoints on the important features. Officials of practically all of the leading cotton exchanges, as well as miscellaneous interests—bankers and editors of trade journals—were interviewed. Altogether, approximately 475 separate reports were made by the field agents on the subject.

II. CHARACTER OF INFORMATION OBTAINED.

Information directly from exchanges.—This includes copies of their charters, by-laws and rules, membership lists, and forms of contract.

By far the most important were very complete records of prices, both of spot cotton and future contracts, and also records of the volume of future transactions up to 1898, at which time both the New York and New Orleans exchanges ceased to keep such a record.

There were also secured from the exchanges figures as to the stock of cotton on hand, rejections, transactions in connection with the inspection fund of the New York exchange, minutes of certain of the exchange committees, copies of various correspondence and data before some of such committees on important matters, and a large mass of testimony taken before a special committee of the New York Cotton Exchange.

By direct observation, also, the officers of the bureau noted the technique of the business methods, of the classification of cotton. warehousing, terms of delivery, the instruments employed in making settlements on deliveries, and familiarized themselves with the details of the business and the terms employed therein. These studies were made on the spot.

Information from cotton exchange members and cotton merchants.—Information was obtained from cotton-exchange members as individuals, mainly in the form of interviews, and chiefly concerned with criticisms, adverse and friendly, on methods of conducting business on the exchanges, particularly in New York and New Orleans, and of suggestions for improvements and criticisms of such suggestions. In nearly every case these interviews were reported by a stenographer.

One very important source of information was from cotton merchants, some of whom were also members of exchanges, in the shape of extensive records of prices paid for cotton in the interior.

Copies of transactions of some of the most important associations of interests were also secured, such as resolutions of the American Cotton Manufacturers' Association.

Where necessary, certain legal points were considered and judicial decisions cited.

From spinners.—This information was mainly in the form of interviews, consisting chiefly of criticisms on exchange methods.

From producers and producers' organizations.—Here were obtained the usual published documents, charters, by-laws, etc. The principal officers were interviewed as to their opinions on cotton exchanges and on their own associations.

III. FORCE AND TIME DEVOTED TO THE INVESTIGATION.

All the field work, and much work of drafting the report, was conducted under my direction by two of my chief assistants, one of whom gave about one hundred and ten days to the work and the other about one hundred and forty days. Accompanying these officers at various times in the field were also four stenographers, who spent in such field work an aggregate of about one hundred and eighty days.

The work in the office was even more lengthy. One of the principal assistants spent in the office in digesting the material and preparing the report about four hundred and twenty days, another about two hundred and seventy days, and a third about seventy-five days.

The actual computations and tabulation of figures, percentages, etc., together with the clerical and stenographic work, comprised a total of about sixteen hundred days. In other words, the investigation occupied the time of two of our ablest men, if figured continuously, for practically eighteen months, two other agents for about three and one-half months, and the equivalent of the time of four stenographers and clerks for eighteen months. All this was also under the constant supervision of myself.

IV. TREATMENT OF MATERIAL OBTAINED.

The result of the method of investigation was a great mass of interviews, statistics, pamphlets, and other data. All of this material was carefully examined, classified, and digested. From the statistics in hand were compiled the statistical tables presented in the report; as already indicated, the figures used were obtained from the official records of exchanges and from the records of cotton merchants. There can be no question as to their reliability; it is believed that they are the most accurate figures of this character that have ever been published. In compiling the statistical data, particular effort was made to insure not only accuracy but fairness in presentation. Full explanation of the methods used is made in the report.

A special feature of the report and one of great usefulness is that the statistical data presented are supplemented by an elaborate series of charts, thus often giving at a glance the salient features of the comparisons.

In the use of the statements made by persons interviewed, particular care was taken that opinions for and against each phase of the subject should be fairly presented. In many cases, as will appear from the report, verbatim statements have been used. In other cases, for the sake of brevity and clearness, the gist of statements is presented in compact form. Anyone who reads the report has in substance all of the evidence bearing on the problem, and is thus able to trace, step by step, the considerations upon which the conclusions of the bureau are based.

Thus the entire report is based very largely upon statistical evidence of unquestioned validity, carefully secured, digested, and interpreted by men of high ability, giving a great amount of time to this single work. All the conclusions arrived at were tested by interviews with men of practical knowledge in the business, which confirmed, from the practical side, conclusions which were in essence in the nature of mathematical demonstrations. Very little is contained in the report of mere opinion and nothing of bare assertion.

Mr. MARSH. May I ask another question? One or two members of the committee suggested to us that we should file with the committee a brief covering the representations of the New York Cotton Exchange in this matter. I do not think that you as chairman spoke on that point. May I ask you whether it will be in order for us to await the printing of the full record and then to prepare and submit to this committee a brief? (See appendix following p. 678.)

The CHAIRMAN. If you will permit me, I will let the answer to that question rest until I can submit it to the committee; but I will take the matter up and consider whether it would be necessary. I shall advise you later as to that.

It has just been brought to my attention that Mr. Sumners, of Texas, is here. Of course, I knew that he was in the room, but the suggestion is now made that he might desire to make a statement.

Mr. Sumners was before the committee last year and discussed this question very fully and intelligently, but if he desires now to make a brief statement, or if he desires to file a written brief, we will be glad to consider it.

Mr. SUMNERS. Mr. Chairman, I hardly know just what to do about it. I think there are some very important matters in connection with this subject that, so far as I can see from the record, have not been brought out. I realize that this committee has been here very faithfully through all these hearings, and I simply tender myself to the committee. There are some points here that I think are vital, and which have not been brought out so far as I can read the record.

The CHAIRMAN. May I inquire how long you expect to be in town?

Mr. SUMNERS. I shall be here to-morrow. I regard this as one of the most important legislative matters that has ever come before Congress, in so far as it affects the whole industrial interests of the South.

The CHAIRMAN. The committee will take it under consideration. We can not remain any longer to-night.

Mr. SUMNERS. Yes; I understand you can not.

(At 5 o'clock p. m. the committee adjourned.)

SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE,
HOUSE OF REPRESENTATIVES,
Washington, D. C., March 4, 1910.

The subcommittee met at 11 o'clock a. m., Hon. Charles F. Scott in the chair.

(Subcommittee composed of Messrs. Scott, Hawley, Plumley, Lever, and Beall.)

The CHAIRMAN. The measures under discussion having been by the full committee referred to the subcommittee, a meeting is held at this date for the purpose of continuing the hearings. Representative Hardwick, of Georgia, is present, and the committee will be very glad to hear any observations he may have to make on the subject.

TESTIMONY OF HON. THOMAS W. HARDWICK, A REPRESENTATIVE FROM THE STATE OF GEORGIA.

Mr. HARDWICK. Mr. Chairman, I hope to be able to commend myself to the favorable consideration of the committee by promising to be very brief.

For some years, living in the very heart of the cotton belt of the South, I have been considering this question and studying it as a man who understands the cotton business as a practical business, and as a man who has had some experience as a lawyer. I have considered both phases of the question, and I wish to submit some observations on both phases of it.

In the first place, it has struck me for years, even before I came to Congress, that it was an extreme hardship for a great people to be the football of gambling and speculating interests to the extent that the cotton-producing people of the South are and have been for a number of years. Of course, when a people produce anything they are subject to all the natural and ordinary vicissitudes and changes and fluctuations and chances that come from the laws of trade, the natural laws of supply and demand; and whether what they plant will be worth more or less than it costs to make it, or whether the margin or profit be small or great of course can not be removed from the operation of this natural chance, which is controlled and governed by the law of supply and demand; but it seems to me it is an extremely hard thing for many millions of people, producing a great part of the wealth of the country, to have this natural chance that they must undergo so greatly enhanced by artificial causes, such as you have heard outlined to your committee and which I will not go over again with you.

But I want to say this, Mr. Chairman: There is another view of this matter that appealed to me very forcibly from the beginning, and it is a view that has been presented to me by hundreds of small cotton buyers in the different sections of the State in which I live, not only in my district, but in every district in Georgia. There are a number of those men who claim that they can not command the capital to buy the farmers' cotton unless they can sell against what they buy day by day on the boards in New York, and for some years I have struggled in my own mind with that difficulty in an endeavor to frame a bill that will draw the line properly, so as to abolish the

gambling transaction, pure and simple, and at the same time leave to the man who wants to buy the farmers' cotton an opportunity to do legitimate hedging, if there is such a thing as legitimate hedging, against his daily purchases from the producers themselves in the open markets of the country.

At first I was fearful that the bill offered by the chairman and the bill on the same line offered by my friend from Texas (Mr. Burleson) did not draw that line properly; that it drew it too stringently against the man who wanted to buy the farmers' cotton and who, therefore, was obliged to hedge, if he was a man of small means, against his purchases; but I am glad to say that after careful consideration of these bills I have come to the conclusion that is not true; that under these bills every legitimate hedge is possible that ought to be allowed, and I am glad to say that this opinion is entertained by numbers of small cotton buyers throughout my district and throughout other parts of Georgia, who say that every legitimate transaction that is permissible and that ought to be fairly permitted can still be had under this bill, because if a man goes out and buys cotton from day to day, as these men do, he can come within the terms of this bill and he can sell futures, make a future-delivery contract, with an actual intention to deliver, because he has the cotton against the "future" sale that he has made. I think the bill is fully safeguarded on that point, and I am willing to commit myself unreservedly to its provisions.

There is one other thing I want to call your attention to before I make some observations on the legal questions involved in this legislation.

In connection with two or three years' study of this proposed legislation I have investigated very closely, of course, as doubtless you gentlemen all have, the Louisiana lottery legislation. I found that at first when the Louisiana lottery was first legislated against the legislation was imperfect and incomplete, in that it did not protect people in the United States against the distribution of lottery tickets if they came from a foreign country. The result was that after the Louisiana lottery went out of business under the legislation directed against it by Congress it was first transformed, I believe, into the Honduras National Lottery, and then, possibly, into the Mexican National Lottery. There were two or three of these Central American or South American countries that started successors to the Louisiana lottery, so that Congress, in 1895, some years after the legislation was passed, had to amend the Louisiana lottery legislation so as to include in it language broad enough to cover the lottery business when it came from foreign countries as well as our own, and that was done, if you will permit me—I will put it briefly in the record—in exactly these words, because I have copied it from the Revised Statutes:

Be it enacted, etc.—

I will not read it in full—

That any person who shall cause to be brought to the United States from abroad for the purpose of disposing of the same, or deposited in or carried by the mails of the United States, or carried from one State to another in the United States, any lottery ticket, etc.

That was the language used in prohibiting the foreign transactions.

Again, another section:

Or shall cause any advertisement of such lottery, etc., to be brought into the United States or deposited in or carried by the mails of the United States, or transferred from one State to another in the United States, shall be punishable, etc., by imprisonment.

That was the way they finally got at it in the lottery legislation. The bills presented by the chairman of this committee, and by the gentleman from Texas, both sought to prohibit gambling transactions if they were going from one State to another or to a Territory, or to the District of Columbia, or from or to a foreign country; but in providing the machinery for enforcing the law there was no reference made to anything except telephone and telegraph companies, and to the mails; and I have suggested to the chairman and to the gentleman from Texas, and I want now to submit to the consideration of the subcommittee, the following amendments to the bill. I have not undertaken to draw a bill of my own, although I have studied this question for years, because I want to say—and I say it in great compliment to the two gentlemen to whom I have referred—that I believe the bill they have drawn is the best that can be presented on this question. I say that after years of effort, because I was not able to get anything, until I saw your bill, that exactly suited me.

On page 1 of the bill, line 12, after the word "line," where it says "telegraph or telephone line"——

Mr. LEVER. That is, the Scott bill?

Mr. HARDWICK. The Scott bill—I would insert "or cable, or wireless telegraphy system, or otherwise."

The bill reads:

That it shall be unlawful for any person or association to send or cause to be sent from one State or Territory of the United States or the District of Columbia to any other State or Territory of the United States or the District of Columbia, or to any foreign country, or knowingly to receive or knowingly to cause to be received in any State or Territory of the United States or the District of Columbia from any other State or Territory of the United States or the District of Columbia or from any foreign country, by a telegraph or telephone line.

I would insert at that point the words "or cable, or wireless telegraphy system, or otherwise," so as to exclude these gambling transactions, not only from interstate but from international commerce.

Now, without following the bill, except to say that the same idea is repeated in each one of these amendments, and is sought to be carried out through the entire body of the bill, I propose the following amendments:

Page 2, line 19, after the word "line," insert "or cable, or wireless telegraphy system, or otherwise."

Page 4, line 2, after the word "line," insert "or cable, or wireless telegraphy system, or otherwise."

Page 4, line 15, after the word "telephone," insert "or cable or wireless telegraphy."

Page 4, line 22, after the word "line," insert "or cable, or wireless telegraphy system."

Page 5, line 15, after the word "telephone," insert "or cable or wireless telegraphy."

Page 5, line 21, after the word "line," insert "or cable, or wireless telegraphy system."

So that, Mr. Chairman, the effect of it would be to put everywhere in this bill where these words "telegraph or telephone line" occur the words "cable or wireless telegraphy system," so that when you

remember that you have in the bill already the prohibition against this sort of transactions coming from or going to a foreign country, you have the appliances by which they would be sent to or received from a foreign country included as well.

Those are the amendments I propose. They are technical only, but at the same time I think they are not without some importance, because I fear that without those amendments and without full and adequate machinery being provided on this point, the effect of this legislation might be to transfer the larger transactions of the character we are seeking to prohibit and abolish to Liverpool, Bremen, Havre, or some other foreign exchange, just as was done in the case of the Louisiana lottery; and these amendments are respectfully offered to your subcommittee with that view in mind.

There is one other phase of this question that I wanted briefly to discuss with the committee. It has not been discussed, so far as I have heard, and I do not think there is any other feature of it that has not. The other questions seem to have been thoroughly covered by both the evidence and the arguments pro and con on this proposition, and I expect it is hardly necessary to go into a discussion of the legal principles on which this legislation rests. At the same time, as all the members of the committee are not lawyers, and probably as some of them who are lawyers have not thought about it very closely—I ought not to say that. I mean, they live in a different section from where I live, and have not had the same amount of interest in this subject, and they may not have had occasion to investigate it, and I feel the committee will excuse me if I touch on that side of the question.

I have no doubt in my own mind that this legislation is perfectly constitutional and can and will be enforced by the courts of the United States without the slightest hesitation or doubt. In principle it seems to me to rest entirely upon the basis of the lottery case and of course of the cases in the Supreme Court that have followed that great decision.

Of course there have always been two lines of thought about the regulation of interstate commerce. The old fashioned, and, if I may say so, democratic idea was that the power to regulate commerce between the States did not include the power to prohibit it. On the other hand, the broad or the liberal construction of the interstate commerce clause was that under the power to regulate, the power to prohibit was necessarily included; and at the other end of the Capitol a distinguished Senator from Indiana has carried that doctrine so far as to say on the floor of the Senate that the Congress of the United States could, if it so desired, prohibit the carriage through any of the channels of interstate commerce of any article simply because it was made by a redheaded man or a blue-eyed woman, whether the article was inherently sound or not.

I do not go that far, and we do not have to go that far in this legislation. So far as I am concerned, I think we are safe in resting on the adjudications of the courts when we undertake to pass this legislation. In the lottery case, the official name of which is Champion *v.* Ames, reported in 188 United States, page 321, I want to call the attention of the subcommittee briefly to the principles announced by Justice Harlan, who delivered the majority opinion. He said this:

The appellant insists that the carrying of lottery tickets from one State to another State by an express company engaged in carrying freight and packages from State

to State, although such tickets may be contained in a box or package, does not constitute, and can not by any act of Congress be legally made to constitute, commerce among the States within the meaning of the clause of the Constitution of the United States providing that Congress shall have power "to regulate commerce with foreign nations, and among the several States, and with the Indian tribes;" consequently, that Congress can not make it an offense to cause such tickets to be carried from one State to another.

The Government insists that express companies when engaged, for hire, in the business of transportation from one State to another are instrumentalities of commerce among the States—

Let me say here that this same argument would apply to telegraph and telephone companies also as we undertake to apply it in this bill—

that the carrying of lottery tickets from one State to another is commerce which Congress may regulate; and that as a means of executing the power to regulate interstate commerce Congress may make it an offense against the United States to cause lottery tickets to be carried from one State to another.

The questions presented by these opposing contentions are of great moment, and are entitled to receive, as they have received, the most careful consideration.

What is the import of the word "commerce" as used in the Constitution? It is not defined by that instrument. Undoubtedly, the carrying from one State to another by independent carriers of things or commodities that are ordinary subjects of traffic, and which have in themselves a recognized value in money, constitutes interstate commerce. But does not commerce among the several States include something more? Does not the carrying from one State to another, by independent carriers, of lottery tickets that entitle the holder to the payment of a certain amount of money therein specified also constitute commerce among the States?

It is contended by the parties that these questions are answered in the former decisions of this court, the Government insisting that the principles heretofore announced support its position, while the contrary is confidently asserted by the appellant. This makes it necessary to ascertain the import of such decisions. Upon that inquiry we now enter, premising that some propositions were advanced in argument that need not be considered. In the examination of former judgments it will be best to look at them somewhat in the order in which they were rendered. When prior adjudications have thus been collated the particular ground upon which the judgment in the present case must necessarily rest can be readily determined.

I will not put all of this in the record, but I want to read what the court said about the merits of this question after they got through reviewing the former decisions of the court:

This reference to prior adjudications could be extended if it were necessary to do so. The cases cited, however, sufficiently indicate the grounds upon which this court has proceeded when determining the meaning and scope of the commerce clause. They show that commerce among the States embraces navigation, intercourse, communication, traffic, the transit of persons, and the transmission of messages by telegraph.

The court refers to the telegraph case, of course, in this opinion.

They also show that the power to regulate commerce among the several States is vested in Congress as absolutely as it would be in a single government having in its constitution the same restrictions on the exercise of the power as are found in the Constitution of the United States; that such power is plenary, complete in itself, and may be exerted by Congress to its utmost extent, subject only to such limitations as the Constitution imposes upon the exercise of the powers granted by it; and that in determining the character of the regulations to be adopted Congress has a large discretion which is not to be controlled by the courts, simply because, in their opinion, such regulations may not be the best or most effective that could be employed.

We come, then, to inquire where there is any solid foundation upon which to rest the contention that Congress may not regulate the carrying of lottery tickets from one State to another, at least by corporations or companies whose business it is, for hire, to carry tangible property from one State to another. It was said in argument that lottery tickets are not of any real or substantial value in themselves, and therefore are not subjects of commerce. If that were conceded to be the only legal test as to what are to be deemed subjects of the commerce that may be regulated by Congress, we can not accept as accurate the broad statement that such tickets are of no value. Upon their face they show that the lottery company offered a large capital prize, to

be paid to the holder of the ticket winning the prize at the drawing advertised to be held at Asuncion, Paraguay. Money was placed on deposit in different banks in the United States to be applied by the agents representing the lottery company to the prompt payment of prizes. These tickets were the subject of traffic; they could have been sold; and the holder was assured that the company would pay to him the amount of the prize drawn. That the holder might not have been able to enforce his claim in the courts of any country making the drawing of lotteries illegal, and forbidding the circulation of lottery tickets, did not change the fact that the tickets issued by the foreign company represented so much money payable to the person holding them and who might draw the prizes affixed to them. Even if a holder did not draw a prize, the tickets, before the drawing, had a money value in the market among those who chose to sell or buy lottery tickets. In short, a lottery ticket is a subject of traffic, and is so designated in the act of 1895.

That is the act I read from in the beginning.

"That fact is not without significance in view of what this court has said. That act, counsel for the accused well remarks, was intended to supplement the provisions of prior acts, excluding lottery tickets from the mails, and prohibiting the importation of lottery matter from abroad, and to prohibit the act of causing lottery tickets to be carried, and lottery tickets and lottery advertisements to be transferred from one State to another by any means or method. (15 Stat. L., 196, chap. 246; 17 Stat. L., 302, chap. 335; 19 Stat. L., 90, chap. 186; Rev. Stat., par. 3894, U. S. Comp. Stat., 1901, p. 2659; 26 Stat. L., 465, chap. 908; 28 Stat. L., 963, chap. 191, U. S. Comp. Stat., 1901, p. 3178.)

We are of opinion that lottery tickets are subjects of traffic, and therefore are subjects of commerce, and the regulation of the carriage of such tickets from State to State, at least by independent carriers, is a regulation of commerce among the several States.

Now, here comes the vital point of the decision on the question suggested:

But it is said that the statute in question does not regulate the carrying of lottery tickets from State to State, but by punishing those who cause them to be so carried Congress in effect prohibits such carrying; that in respect of the carrying from one State to another of articles or things that are in fact, or according to usage in business, the subjects of commerce, the authority given Congress was not to prohibit, but only to regulate. This view was earnestly pressed at the bar by learned counsel, and must be examined.

It is to be remarked that the Constitution does not define what is to be deemed a legitimate regulation of interstate commerce. In Gibbons *v.* Ogden it was said that the power to regulate such commerce is the power to prescribe the rule by which it is to be governed. But this general observation leaves it to be determined when the question comes before the court whether Congress in prescribing a particular rule has exceeded its power under the Constitution. While our Government must be acknowledged by all to be one of enumerated powers (McCullough *v.* Maryland, 4 Wheat., 316, 405, 407, 4 L. ed., 579, 601), the Constitution does not attempt to set forth all the means by which such powers may be carried into execution. It leaves to Congress a large discretion as to the means that may be employed in executing a given power. The sound construction of the Constitution, this court has said, "must allow to the national legislature that discretion with respect to the means by which the powers it confers are to be carried into execution, which will enable that body to perform the high duties assigned to it in the manner most beneficial to the people. Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the Constitution, are constitutional. (4 Wheat., 421, 4 L. ed., 605.)

We have said that the carrying from State to State of lottery tickets constitutes interstate commerce, and that the regulation of such commerce is within the power of Congress under the Constitution. Are we prepared to say that a provision which is, in effect, a prohibition of the carriage of such articles from State to State is not a fit or appropriate mode for the regulation of that particular kind of commerce? If lottery traffic, carried on through interstate commerce, is a matter of which Congress may take cognizance and over which its power may be exerted, can it be possible that it must tolerate the traffic and simply regulate the manner in which it may be carried on? Or may not Congress, for the protection of the people of all the States, and under the power to regulate interstate commerce, devise such means, within the scope of

the Constitution and not prohibited by it, as will drive that traffic out of commerce among the States?

In determining whether regulations may not under some circumstances properly take the form or have the effect of prohibition, the nature of the interstate traffic which it was sought by the act of May 2, 1895, to suppress, can not be overlooked. When enacting that statute Congress no doubt shared the views upon the subject of lotteries heretofore expressed by this court. In Phalen *v.* Virginia (8 How., 163, 168, 12 L. ed., 1030), after observing that the suppression of nuisances injurious to public health or morality, is among the most important duties of government, this court said: "Experience has shown that the common forms of gambling are comparatively innocuous when placed in contrast with the widespread pestilence of lotteries. The former are confined to a few persons and places, but the latter infests the whole community; it enters every dwelling; it reaches every class; it preys upon the hard earnings of the poor; it plunders the ignorant and simple." In other cases we have adjudged that authority given by legislative enactment to carry on a lottery, although based upon a consideration in money, was not protected by the contract clause of the Constitution; this for the reason that no State may bargain away its power to protect the public morals, nor excuse its failure to perform a public duty by saying that it had agreed by legislative enactment not to do so. (Stone *v.* Mississippi, 101 U. S., 814, 25 L. ed., 1079; Douglas *v.* Kentucky, 160 U. S., 480, 42 L. ed., 553, 18 Sup. Ct. Rep. 199.)

If a State, when considering legislation for the suppression of lotteries within its own limits, may properly take into view the evils that inhere in the raising of money in that mode, why may not Congress, invested with the power to regulate commerce among the several States, provide that such commerce shall not be polluted by the carrying of lottery tickets from one State to another? In this connection it must not be forgotten that the power of Congress to regulate commerce among the States is plenary, is complete in itself, and is subject to no limitations except such as may be found in the Constitution. What provision in that instrument can be regarded as limiting the exercise of the power granted? What clause can be cited which in any degree countenances the suggestion that one may, of right, carry or cause to be carried from one State to another that which will harm the public morals? We can not think of any clause of that instrument that could possibly be invoked by those who assert their right to send lottery tickets from State to State except the one providing that no person shall be deprived of his liberty without due process of law. We have said that the liberty protected by the Constitution embraces the right to be free in the enjoyment of one's faculties; "to be free to use them in all lawful ways; to live and work where he will; to earn his livelihood by any lawful calling; to pursue any livelihood or avocation, and for that purpose to enter into all contracts which may be proper." (Allgeyer *v.* Louisiana, 165 U. S., 578, 589; 41 L. ed., 832, 835; 17 Sup. Ct. Rep., 427, 431.)

But surely it will not be said to a part of anyone's liberty, as recognized by the supreme law of the land, that he shall be allowed to introduce into commerce among the States an element that will be confessedly injurious to the public morals.

If it be said that the act of 1895 is inconsistent with the tenth amendment, reserving to the States respectively or to the people the powers not delegated to the United States, the answer is that the power to regulate commerce among the States has been expressly delegated to Congress.

Besides, Congress by that act does not assume to interfere with traffic or commerce with lottery tickets carried on exclusively within the limits of any State, but has in view only commerce of that kind among the several States. It has not assumed to interfere with the completely internal affairs of any State and has only legislated in respect of a matter which concerns the people of the United States. As a State may, for the purpose of guarding the morals of its own people, forbid all sales of lottery tickets within its limits, so Congress, for the purpose of guarding the people of the United States against the "widespread pestilence of lotteries" and to protect the commerce which concerns all the States, may prohibit the carrying of lottery tickest from one State to another. In legislating upon the subject of the traffic in lottery tickets as carried on through interstate commerce, Congress only supplemented the action of those States—perhaps all of them—which, for the protection of the public morals, prohibit the drawing of lotteries, as well as the sale or circulation of lottery tickets, within their respective limits.

That is true in this case, too. Most of the States have legislated against this evil. Now, just a word or two more on that subject. I read again from the lottery case:

It said, in effect, that it would not permit the declared policy of the States, which sought to protect their people against the mischiefs of the lottery business to be overthrown or disregarded by the agency of interstate commerce. We should hesitate long before adjudging that an evil of such appalling character, carried on through interstate commerce, can not be met and crushed by the only power competent to that end. We say competent to that end, because Congress alone has the power to occupy, by legislation, the whole field of interstate commerce. What was said by this court upon a former occasion may well be here repeated: "The framers of the Constitution never intended that the legislative power of the nation should find itself incapable of disposing of a subject-matter specifically committed to its charge." (Re Rahrer, 140 U. S., 545, 563; sub. nom. Wilkerson *v.* Rahrer, 35 L. ed., 572, 577; 11 Sup. Ct. Rep., 865, 869.) If the carrying of lottery tickets from one State to another be interstate commerce, and if Congress is of opinion that an effective regulation for the suppression of lotteries, carried on through such commerce is to make it a criminal offense to cause lottery tickets to be carried from one State to another, we know of no authority in the courts to hold that the means thus devised are not appropriate and necessary to protect the country at large against a species of interstate commerce, which, although in general use and somewhat favored in both national and state legislation in the early history of the country, has grown into disrepute and has become offensive to the entire people of the nation. It is a kind of traffic which no one can be entitled to pursue as of right.

That regulation may sometimes appropriately assume the form of prohibition is also illustrated by the case of diseased cattle transported from one State to another. Such cattle may have, notwithstanding their condition, a value in money for some purposes, and yet it can not be doubted that Congress, under its power to regulate commerce, may either provide for their being inspected before transportation begins, or, in its discretion, may prohibit their being transported from one State to another. Indeed, by the act of May 29, 1884 (chap. 60, 23 Stat. L., 32, par. 6, U. S., Comp. Stat., 1901, p. 3184), Congress has provided:

"That no railroad company within the United States or the owners or masters of any steam or sailing, or other vessel or boat, shall receive for transportation or transport from one State or Territory to another, or from any State into the District of Columbia, or from the District into any State, any live stock affected with any contagious, infectious, or communicable disease, and especially the disease known as pleuro-pneumonia; nor shall any person, company, or corporation deliver for such transportation to any railroad company or master or owner of any boat or vessel, any live stock, knowing them to be affected with any contagious, infectious, or communicable disease; nor shall any person, company, or corporation drive on foot or transport in private conveyance from one State or Territory to another, or from any State into the District of Columbia, or from the District into any State, any live stock, knowing them to be affected with any contagious, infectious, or communicable disease, and especially the disease known as pleuro-pneumonia." (Reid *v.* Colorado. 187 U. S., 137; ante, 108, 23 Sup. Ct. Rep., 92.)

I read again from a later part of the opinion:

It is said, however, that in order to suppress lotteries carried on through interstate commerce Congress may exclude lottery tickets from such commerce. That principle leads necessarily to the conclusion that Congress may arbitrarily exclude from commerce among the States any article, commodity, or thing, of whatever kind or nature, or however useful or valuable, which it may choose, no matter with what motive, to declare shall not be carried from one State to another. It will be time enough to consider the constitutionality of such legislation when we must do so. The present case does not require the court to declare the full extent of the power that Congress may exercise in the regulation of commerce among the States. We may, however, repeat in this connection what the court has heretofore said, that the power of Congress to regulate commerce among the States, although plenary, can not be deemed arbitrary, since it is subject to such limitations or restrictions as are prescribed by the Constitution. This power therefore may not be exercised so as to infringe rights secured or protected by that instrument.

It would not be difficult to imagine legislation that would be justly liable to such an objection as that stated and be hostile to the objects for the accomplishment of which Congress was invested with the general power to regulate commerce among the several States. But, as often said, the possible abuse of a power is not an argument

against its existence. There is probably no governmental power that may not be exerted to the injury of the public. If what is done by Congress is manifestly in excess of the powers granted to it, then upon the courts will rest the duty of adjudging that its action is neither legal nor binding upon the people. But if what Congress does is within the limits of its power, and is simply unwise or injurious, the remedy is that suggested by Chief Justice Marshall in Gibbons *v.* Ogden, when he said: "The wisdom and the discretion of Congress, their identity with the people, and the influence which their constituents possess at elections are in this, as in many other instances, as that, for example, of declaring war, the sole restraints on which they have relied to secure them from its abuse. They are the restraints on which the people must often rely solely in all representative governments."

The whole subject is too important, and the questions suggested by its consideration are too difficult of solution, to justify any attempt to lay down a rule for determining in advance the validity of every statute that may be enacted under the commerce clause. We decide nothing more in the present case than that lottery tickets are subjects of traffic among those who choose to sell or buy them; that the carriage of such tickets by independent carriers from one State to another is therefore interstate commerce; that under its power to regulate commerce among the several States Congress—subject to the limitations imposed by the Constitution upon the exercise of the powers granted—has plenary authority over such commerce and may prohibit the carriage of such tickets from State to State; and that legislation to that end, and of that character, is not inconsistent with any limitation or restriction imposed upon the exercise of the powers granted to Congress.

Just one word more. In a number of decisions the courts have decided that both telegraph and telephone companies engaged in the business of sending messages from one State to another are engaged in interstate commerce, and that their business is interstate commerce and subject to national regulation, and the earlier of those cases—there are a good many later—are referred to in this lottery decision as the basis upon which some of this opinion rests itself.

I do not think there can be any possible doubt in the mind of any lawyer who has thought about the question that Congress has a right to prohibit interstate gambling; and that is what this bill seeks to accomplish.

Mr. SUMNERS. Just a minute, Mr. Hardwick. Do you mean interstate gambling that does not involve articles of interstate commerce?

Mr. HARDWICK. It does not make any difference at all about that.

Mr. SUMNERS. I wanted to get your view on that.

Mr. HARDWICK. If you have studied this case——

Mr. SUMNERS. I have studied it.

Mr. HARDWICK. You understand, of course, there was no real article of commerce involved.

Mr. SUMNERS. They held there, though, that the lottery tickets were an article of value and could be bought and sold for a price.

Mr. HARDWICK. Yes. Can not a man's contract for futures on the exchange be bought and sold?

Mr. SUMNERS. I am simply referring to the statement you made as to interstate gambling. You readily understand I am with you on the bill. We are on the same side.

Mr. HARDWICK. That would not matter, anyway.

Mr. SUMNERS. I was trying to find out your view about it.

Mr. HARDWICK. I do not know whether I have expressed myself clearly on that point or not: I think the fact that any agency of interstate commerce was used in order to carry out gambling between people in different States, or from one State or district or Territory to another State or district or Territory, would give Congress the right to prohibit the use of the instrumentalities of interstate commerce for that sort of a transaction.

The CHAIRMAN. It has been argued before the committee, Mr. Hardwick, that the provisions of this bill would make ordinary commercial hedging impossible. I have a great deal of respect for your judgment as a lawyer. I know you have looked into the question carefully, and I would be glad to have your opinion as to whether it would bear that construction?

Mr. HARDWICK. Mr. Chairman, I do not think it is possible that it should. I submitted this bill to some cotton men in my district who were inclined to oppose legislation on this subject. I did that since this matter has been under discussion. They say there is no reason on earth why any legitimate hedging should not be done by a man, for instance, in Sandersville, Ga., a little town of three or four thousand people in which I live, going out among the people day after day and selling that cotton on the board.

Mr. LEVER. Having that spot cotton in his possession?

Mr. HARDWICK. Yes. At first I was very doubtful about it. I want to be candid with everybody in this room and say I was afraid that the time might come if we passed legislation of so stringent a character that a great many cotton buyers could not buy cotton throughout the South, and there would be fewer people there to buy the cotton when it was brought in by the farmer, and there would be a great howl against those of us who had stood for this legislation. I did not want to put myself in the position of causing a situation where the farmers would come to the country towns and could not find buyers there to buy their cotton.

Mr. BURLESON. I want to make this suggestion, that in addition to the principles laid down in the decision of the Supreme Court which you have just read there is this additional fact which gives Congress the power to deal with this matter by legislation. If it can be shown that the transactions taking place upon the New York Exchange and the New Orleans Exchange constitute an obstruction or an interference to free commerce between the States, then the power of course would attach to prohibit such transactions as bring about this obstruction.

Mr. HARDWICK. I think so; although, Mr. Burleson, I want to say frankly to the committee—it may not meet the views of any of you, but it is my view, anyway—I do not believe we could by legislation—in fact, I am sure we could not, and I do not think any lawyer on this committee will contend to the contrary—abolish the New York Cotton Exchange. Of course that is a matter for the State of New York. I wish we could abolish those exchanges, sometimes. We can not do that, and I will tell you another thing, Mr. Chairman. I do not believe we could undertake by legislation here to regulate the sort of contracts they shall make on these exchanges, by congressional action, except to outlaw the gambling contract.

Mr. BURLESON. No; we could not do it.

Mr. HARDWICK. I wish we could. I believe it would help the situation a great deal if we could pass legislation that would control the sort of contracts these men must make, and pass legislation that would control their customs about delivery and about grading. It might be a wiser and more effectual way of getting at the difficulty, but in the limited sphere of federal action under the powers conferred by the Constitution of the United States upon this body we have not the power to do that.

The CHAIRMAN. One suggestion in the direction of legislation has been made, that a larger margin should be required. Do you think the Federal Congress has any authority over that?

Mr. HARDWICK. I do not think so, Mr. Chairman. It seems to me that under this decision and under the plain intimations in it and the cases that follow it, the only thing we can do is to prohibit transactions that are simply gambling in their nature.

Mr. BURLESON. And does not the Scott bill confine it to that exclusively?

Mr. HARDWICK. I think so. That is the reason I am such a hearty advocate of the Scott bill as it stands. Of course these amendments I have proposed are intended to perfect it, so far as giving protection against gambling transactions on the foreign exchanges.

Mr. LEVER. Suppose it appears by the evidence before the committee, and I do not think it does appear, that a case has not been made out against the exchanges that they are carrying on gambling transactions. Would the fact that their operations tend to obstruct the free movement of commerce bring this legislation within the purview of the cases?

Mr. HARDWICK. I am afraid not, Mr. Lever; if you want my opinion on it.

Mr. LEVER. You differ with Mr. Burleson on that?

Mr. HARDWICK. I expect I do. I answered his question hastily just now. I am afraid you could not base this legislation on any such proposition as that, standing alone; but there is no doubt about the fact that this legislation rests on a solid foundation, and if these people are not guilty of any of these practices at which the legislation aims, they ought not to object to it, and there can be no legal reason why the bill should not pass, and no moral reason why it should not pass. It is hard for me to see why, if they are innocent of all gambling charges and if the exchanges are as white as snow from that charge, they should object to legislation which prohibits it.

Mr. MANDELBAUM. Mr. Chairman, may I ask one question?

The CHAIRMAN. Yes.

Mr. HARDWICK. I will yield with pleasure.

Mr. MANDELBAUM. I have listened with great interest to the gentleman when he read the case. I admit I am not a lawyer, but it seems to me that case hardly covers the ground here. That case prohibits the actual carriage of an article from one State to another.

Mr. HARDWICK. Yes.

Mr. MANDELBAUM. That is a subject of transportation which the court has declared to be an article of commerce.

Mr. HARDWICK. Yes.

Mr. MANDELBAUM. This bill would cover that in the same manner if it would or could prohibit the carrying of cotton from one State to another.

Mr. HARDWICK. Now I will explain to the gentleman, because he is not a lawyer and therefore has not caught the distinction I drew. In several of these cases cited in this opinion attention was called by the court to the fact that telephone messages and telegraph messages were interstate commerce. Now, all we propose to regulate in this bill, besides, of course, prohibiting the use of the United States mails for this sort of contract, are the telephone and telegraph companies and the cable companies.

Mr. MANDELBAUM. But does it not say in the same case that they have not acted on those points?

Mr. HARDWICK. They have decided that question.

Mr. MANDELBAUM. Do they not say that they will act upon them when they come before them in a concrete case?

Mr. HARDWICK. No; they said they would decide the question as to whether there should be or could be exclusion or prohibition from interstate commerce of any article inherently sound, but they go on and say that where a transaction is simply gambling it is not entitled to——

Mr. MANDELBAUM. Mr. Hardwick, you admit that the main issue in that case is the covering of transportation from one State to another of lottery tickets, or of an article that the court has declared to be an article of commerce between the States?

Mr. HARDWICK. Undoubtedly.

Mr. MANDELBAUM. Under the interstate-commerce act there is nothing in this case except a prohibition of the use of the mails and the telegraphs.

Mr. HARDWICK. That is right.

Mr. MANDELBAUM. I am not a lawyer, but it seems to me in order to justify Congress in prohibiting the use by a business of the telegraph and the mail it must show conclusively that the business is immoral in its character; not that it can be employed occasionally for an immoral purpose, but that it is immoral in its character and inherently immoral in its character. That, in my opinion, none of those bills cover by reason of their exemptions. They require that the man shall intend to fulfill that contract—that he intends to deliver when he sells and intends to receive when he buys. He does not say he will not change his mind. He must intend it in the beginning.

Mr. HARDWICK. In answer to that suggestion from the gentleman from New York, I will read this particular part of the opinion in the Lottery case, which I did not elaborate on because I was talking to gentlemen most of whom are lawyers.

I read from page 350, where the court considered the Pensacola Telegraph case.

Mr. SUMNERS. You will find a case cited there in which they held that for a man to walk across an interstate bridge is interstate commerce.

Mr. HARDWICK. That is true; but I want to read from this Telegraph case:

> The question of the scope of the commerce clause was again considered in Pensacola Telegraph Company *v.* Western Union Telegraph Company (96 U. S., 1, 9, 12; 24 L. ed., 708, 710, 712), involving the validity of a statute of Florida, which assumed to confer upon a local telegraph company the exclusive right to establish and maintain lines of electric telegraph in certain counties of Florida. This court held the act to be unconstitutional. Chief Justice Waite, delivering its judgment, said: "Since the case of Gibbons *v.* Ogden (9 Wheat., 1; 6 L. ed., 23)—

That is one of the very early cases.

Mr. BURLESON. A leading case?

Mr. HARDWICK. Yes; it is the leading case, and it is one of the very early cases, but I read from the Pensacola case—

> "it has never been doubted that commercial intercourse is an element of commerce which comes within the regulating power of Congress. Post-offices and post-roads are established to facilitate the transmission of intelligence. Both Congress and the postal service are placed within the power of Congress, because, being national in their

operation, they should be under the protecting care of the National Government. The powers thus granted are not confined to the instrumentalities of commerce of the postal service known or in use when the Constitution was adopted, but they keep pace with the progress of the country and adapt themselves to the new developments of time and circumstances. They extend from the horse with its rider to the stage coach, from the sailing vessel to the steamboat, from the coach and the steamboat to the railroad, and from the railroad to the telegraph, as these new agencies are successivley brought into use to meet the demands of increasing population and wealth. They were intended for the government of the business to which they relate at all times and under all circumstances. As they were intrusted to the General Government for the good of the nation, it is not only the right but the duty of Congress to see to it that intercourse among the States and the transmission of intelligence are not obstructed or unnecessarily encumbered by state legislation."

Mr. MANDELBAUM. That does not cover it.

Mr. HARDWICK. Of course, as you are not a lawyer, I can not hope to convince you on that point.

Mr. HAWLEY. In your opinion the telephone systems and the wireless telegraphy systems are as much common carriers as the telegraph?

Mr. HARDWICK. Undoubtedly.

Mr. HAWLEY. Have they been so declared?

Mr. HARDWICK. They have been so declared. The telephone companies and the telegraph companies were so declared in this very case I have been reading from.

Mr. HAWLEY. It was declared that the telephone company was a common carrier?

Mr. HARDWICK. Yes; that they were agents of interstate commerce for the transmission of intelligence among the States.

Now, one other suggestion, on the subject of the legal side of my amendment. Of course we could not punish people in England who undertook to use a cable, or people in Germany who undertook to use a cable, but the cable has two ends. One end of it comes over here, and the message has either to be sent from here, if it goes from this side, or it has to come here if it is sent from over there; and we can punish whoever stands at the United States end of it and uses it. Therefore there is no doubt about the legality and practicability of the suggestion I have made and its enforcibility.

I thank you, Mr Chairman.

Mr. BEALL. I would like to ask the gentleman, with reference to the question of jurisdiction of Congress over telegraph lines, if there was not an act of Congress along in the sixties that in effect provided that telegraph lines accepting the provisions of that act—and I understand all of them have accepted its provisions—shall come under the jurisdiction of the United States Government as a part of the postal system of the Government?

Mr. HARDWICK. I think so, Mr. Chairman. I have heard of that act, though I have never seen it. I am sure the gentleman from Texas is right about it. He evidently speaks with knowledge, and I have heard there is such an act. But there can be no doubt in my mind, and I do not think there can be very much doubt in the minds of the committee, that these agencies of interstate commerce, such as telegraph and telephone lines, are properly subject to the jurisdiction of Congress and that we can prohibit their use by people who want to indulge in transactions that amount simply to gambling, from one State to another.

Mr. BEALL. Let me ask you a question, going back to the matter of hedging, and taking the illustration you use of the cotton buyer

down at Sandersville, Ga. He goes out and buys the cotton from the producer?

Mr. HARDWICK. Yes, sir.

Mr. BEALL. Probably having a contract to deliver that cotton to the spinner?

Mr. HARDWICK. Not always. That is the trouble. Some of the larger and wealthier ones have their connection made with foreign spinners and sometimes with domestic concerns. There are some of them—I know a number of these cases and have accurate knowledge on that subject—who buy intending to sell, and are actually selling day after day against what they buy.

Mr. BEALL. Suppose they made a contract for the sale of cotton and they go out among the producers to buy it, and before doing it they seek to protect themselves by hedging upon the New York or the New Orleans exchange.

Mr. HARDWICK. Yes; against fluctuations.

Mr. BEALL. Now, there is no intention upon their part to actually deliver the cotton that they are buying from the producer upon that contract that they make upon these exchanges?

Mr. HARDWICK. That is true under the present system, Mr. Beall, although it is not true as you suggest—and that is the necessary vice of your question—that in every instance these men have already made contracts for the sale of the cotton they buy.

Mr. BEALL. I wanted to get your opinion upon that state of facts. Suppose they have made that contract?

Mr. HARDWICK. Then, undoubtedly, there can be no intention to deliver when they also sell futures.

Mr. BEALL. There is no intention to deliver upon the contract that they buy on the cotton exchange?

Mr. HARDWICK. No, sir.

Mr. BEALL. Is it your idea that that sort of contract should be permitted?

Mr. HARDWICK. No, sir; I do not think so; because if they are buying what they have already sold they do not need any hedging. In other words, if they have their contracts already made with the people who are going to spin the cotton, they do not need to sell futures on the board.

Mr. MANDELBAUM. But I am talking, Mr. Hardwick, from the point of view of your man in Sandersville. Suppose he gets an order from Liverpool or Manchester or Boston—"I will take 500 bales from you at 10 cents." He may not have that cotton, but he knows that he can buy the cotton on the exchange in New York or New Orleans, and he knows he can buy the actual cotton in your town and sell the contracts out as he buys the actual cotton. In the case that I understand Mr. Beall is getting at he really would not have any intention to receive or to deliver. At the same time, he does not enter into a transaction for the purpose of gambling. He is making a legitimate business transaction by using the exchange simply as a protection to himself. I understand the question to be whether that bill would prevent that business or not.

Mr. HARDWICK. Your idea would be that he would buy a contract in that case?

Mr. MANDELBAUM. He does not buy it for gambling purposes. He buys it for protection.

Mr. HARDWICK. Now, why does he buy it for protection?

Mr. MANDELBAUM. Because those 500 bales may not be available in one day. It may take him a week to get them. It may take him ten days or two weeks. In bad weather it may take him four weeks to get them.

Mr. HARDWICK. I think that is a good suggestion.

Mr. GLENNY. Mr. Chairman, I do not like to butt in on this, but I worked for an exporter for five years, and that exporter never came home in the fall of the year that he did not have from twenty to thirty, sometimes forty, and even as high as fifty thousand bales of cotton sold to the English spinner ahead, or to the German or Russian spinner. He could not do that and take the chance on ten points fluctuation in the cotton market against that cotton. He had, either in New York or in New Orleans, contracts bought upon which, according to this discussion, there was absolutely no intention to take delivery, but it was done simply to prevent the gambling end of the proposition. That man could not sell that cotton ahead because he could not protect himself. No bank would have anything to do with it, and the result would be, if you will pardon me, that when the cotton crop began to move, the numbers of cotton men who do this business would not have provided for this amount of cotton, and it would be all forced on the market at one time, without anybody being in a position to step in and buy the actual spot cotton.

The CHAIRMAN. Taking the extreme case which has just been presented, Mr. Hardwick——

Mr. GLENNY. Those are facts, sir, and they are not only facts, but to a very large extent more than you gentlemen probably realize.

The CHAIRMAN. I was not questioning the facts. It only presents an extreme case.

Mr. GLENNY. No; it does not. That is the point I want to make. It is not an extreme case. It is a case that happens every year.

Mr. MANDELBAUM. I would like to ask one question of Mr. Hardwick; it affects his own town.

Mr. HARDWICK. I will be very glad to answer it.

Mr. MANDELBAUM. Let us take the reverse of the case that I proposed to you before. Say cotton is coming in in your home town to the extent of a hundred or two hundred bales a day. Your buyer has not got the cotton sold. He can not get any satisfactory offer from abroad or from the East to buy that cotton. Yet the cotton is coming in the town. The people want to sell it. He hedges the cotton, not in order to gamble, but because he does not want to gamble. He sells it on the New York or the New Orleans exchange, with no intention to deliver it there.

Mr. HARDWICK. Why should he not deliver it there?

Mr. MANDELBAUM. One minute, please. He simply waits until he gets a satisfactory offer from a spinner or from a man in Europe who wants to buy that cotton, and can make probably a quarter of a dollar or half a dollar a bale. How would that affect your home town if the buyer could not buy that cotton at all?

Mr. HARDWICK. It is a very simple proposition. The exchange ought to be a mart for the middleman. Your New York man ought to buy it for the people who want to buy it and use it.

Mr. MANDELBAUM. I am simply presenting a case that affects your home town.

Mr. HARDWICK. I understand. I understand its interest too, I think.

Mr. MANDELBAUM. I know you do. Otherwise I would not mention it.

Mr. HARDWICK. I think in any case like that it would be simple enough to require the contract to be made that there shall be actual delivery in contemplation, and then let this man look up a purchaser for that cotton. He would do it if you held the exchange down to its legitimate functions.

Mr. LEVER. Especially these men who are great cotton merchants, as they claim to be.

Mr. HARDWICK. Yes. Your exchange would be a great mart, then.

Mr. MANDELBAUM. That is what we claim.

Mr. HARDWICK. But you say you object to requiring actual delivery?

Mr. MANDELBAUM. We do not. We require actual delivery. You suggested the question, really, by the argument you made by mentioning your home buyer.

Mr. HARDWICK. Yes; but I say they ought not to object to actual delivery being required, and the exchange ought not to object.

Mr. MANDELBAUM. The exchange does not object.

Mr. HARDWICK. Many buyers say now they do not, either, to a law which requires them to have in contemplation actual delivery of this cotton and to a contract requiring it.

Mr. MANDELBAUM. Our contract requires it.

Mr. SUMNERS. They can not stand for that.

Mr. HARDWICK. Who can not?

Mr. SUMNERS. The exchanges. They do not want a contract that requires delivery of cotton. You do not want that contract, do you?

Mr. MANDELBAUM. I certainly do. We do not lose anything in the handling of cotton.

Mr. HARDWICK. Mr. Chairman, it is already after 12 o'clock and I will close. I thank the committee very much for giving me an opportunity to present my views on this question.

TESTIMONY OF MR. HATTON W. SUMNERS, REPRESENTING THE FARM AND RANCH, DALLAS, TEX.

(The witness was sworn by the chairman.)

The CHAIRMAN. Mr. Sumners, while I do not want in any way to direct the course of your remarks, yet I am sure from your standing as an attorney the committee would particularly appreciate a discussion of the matter from a legal standpoint.

Mr. SUMNERS. I will discuss it very briefly, Mr. Chairman.

In my judgment, this bill prohibits hedging. We want to be entirely candid in the discussion of so important a matter as this. I shall read no more of the bill than that part of it which relates to that subject. The bill provides:

> That it shall be unlawful for any person or association to send or cause to be sent from one State or Territory of the United States or the District of Columbia to any other State or Territory of the United States or the District of Columbia or to any foreign country, or knowingly to receive or knowingly to cause to be received in any State or Territory of the United States or the District of Columbia from any other State or Territory of the United States or the District of Columbia, or from any foreign country, by a telegraph or telephone line, any message relating to a contract for

future delivery of grain, cotton, or other farm products, without intending that the grain, cotton, or other farm products so contracted for shall be actually delivered or received—

That stops hedging—

or relating to a contract whereby a party thereto, or any party for whom or in whose behalf such contract is made, acquires the right or privilege to demand in the future the acceptance or the delivery of grain, cotton, or other farm products, without being thereby obligated to deliver or accept such grain, cotton, or other farm products.

I would like to study that a little. It may be that broadens it out somewhat. I doubt it. Now, I do not know whether it was the intention of the drafter of the bill to make that provide for hedging or not.

Mr. BURLESON. There are certain phases of hedging that would not be prevented by this bill. There are certain phases of hedging that would be prevented by it.

Mr. SUMNERS. Yes. Let me read that last clause again—

or other farm products so contracted for shall be actually delivered or received, or relating to a contract whereby a party thereto or any party for whom or in whose behalf such contract is made, acquires the right or privilege to demand in the future the acceptance or the delivery of grain, cotton, or other farm products, without being thereby obligated to deliver or to accept said grain, cotton, or other farm products.

Now, gentlemen, with reference to the power to legislate upon a subject of this sort, it is my judgment that Congress does not have a right under the interstate-commerce clause to legislate upon a purely moral proposition as such. At least, I know of no decision by the Supreme Court of the United States which now gives it that power, but in my judgment the time is not far distant when Congress will legislate upon that subject. This thing is true, as was shown in the lottery case which has been referred to by the gentleman who just spoke to you. Congress goes further, and will go further in the regulation of an interstate matter, where there is a question of public morals involved, than it will go where such a matter is not involved.

That seems to me to be very clear from the lottery case. That case was decided by a divided court. There were five judges who decided in favor of the constitutionality of the law and four of them against it.

There is no question in my mind but that this proposed legislation is entirely constitutional. I shall not go into the details of that discussion. I believe that Congress has a right to legislate with regard to any interstate transaction which affects commerce among the States or between them and any foreign nation.

In a prosecution under this bill, in order to sustain a conviction it would be necessary for the prosecuting attorney to show the interstate transaction in the first instance. Then it would also be necessary, in order to sustain this legislation, to convince the judges, or rather to prevent their being convinced to the contrary, that the transactions against which it is leveled themselves affect interstate commerce. I believe that the connection is so close between the matter against which this proposed legislation prohibits and the commerce affected thereby that the courts will hold that their connection is sufficient to authorize Congress to legislate with regard thereto.

There are only one or two features in connection with this general proposition that I desire to discuss.

In the first place, with regard to the hedging proposition. It may be that I am wrong about that, but I want to suggest for your con-

sideration, in the event you redraft the bill, that if you draft a bill authorizing hedging, as that system is now applied, it is going to be practically impossible for a prosecuting attorney to secure a conviction for a violation of the provisions of that bill unless you are extremely careful in its language and its provisions. It is one thing to declare a given act illegal and another thing to write the law so that it can be enforced; I do not think it is wise to draw fine distinctions or to enter the realms of a man's intentions in order to determine the corpus of a given offense.

The members of the exchanges at one time denied that the expressed intention to deliver upon hedging contracts was a fiction. Now they recognize that it is a fiction of the mind where a man says he intends to deliver on such contracts. It is clearly shown by the record of this hearing, and practically by the admission of gentlemen here that when a merchant goes into the market and buys a hundred bales of cotton and sells a hedge against it on New York or New Orleans, he has no intention of making a delivery on the contract, yet their own contract provides that the delivery be made.

For years and years they resisted prosecution on the ground that they actually intended to deliver. In the famous Scales case, that went up from Texas, Scales went on the stand and said that so far as he knew, in every single transaction that was made through his warehouse on the New York exchange, delivery was actually contemplated; and it was impossible for the prosecuting attorney to enter the realm of Scales's mind and show what he really intended. You will find the same difficulty when you come to prosecutions under this bill. If you are not extremely careful, when you come to the proposition of providing for a system of hedging, the prosecuting attorney will be confronted with the man's own sworn statement that in the particular transaction upon which the prosecution is based it was intended to make delivery. In such a case, what is the prosecuting attorney to do? What is the jury to do? They can not go into the realm of the man's mind and prove that he is swearing to that which is not true.

The character of case which would arise under a law such as is proposed here would be almost entirely different from the ordinary criminal case where criminal intention is presumed from acts proven, in that the same act under this bill may be either legal or illegal, depending upon the intention of the actor, which intention is not necessarily disclosed by anything done or omitted by him. It would practically nullify the law to make the proof of the corpus of offenses under it depend upon the Government's ability to reveal the secret workings of the defendant's mind.

Now, I want to discuss with the committee briefly the proposition of hedging.

It seems to be almost conceded in this hearing that the system of hedging is the one thing connected with this whole proposition that must be preserved. It is conceded, too, that the bucket shop itself is a thing baneful in its influence, and that it ought to be destroyed. Now, I do not mean nor do I for a minute desire to reflect upon the good purposes of the members of the New York exchange, but I make this statement, Mr. Chairman, that institutionally there is but the slightest difference between the New York exchange and a bucket shop, and I am prepared to support that proposition. What is a

bucket shop? A bucket shop is a place where men pretend to buy and sell a commodity without intending to deliver. The man who sells does not intend to deliver and the man who buys does not intend to receive. Those are the fundamentals upon which a bucket shop rests. That is how you determine whether or not an institution is a bucket shop.

I grant you that the gentlemen connected with the New York exchange are personally very high-class men. Those whom I know are men whose personal responsibility is greater, perhaps, than the personal responsibility of men who are connected with the bucket shops. These men have been connected with the New York exchange so long that present conditions have grown up around them, and they do not appreciate the real sort of business in which they are now engaged. My father, who lived down in the South, opened his eyes on the institution of slavery, and he never questioned it. I do not claim to be a better man than my father. Perhaps I am not as good, but I to-day can not appreciate how any man on earth was able to indorse the institution. The day will come when Congress will smile that it ever seriously considered this proposition, and the day will come when persons connected with the New York exchange will realize the character of the business in which they are engaged.

What does the evidence in this case show? It shows that delivery is not made on New York contracts. In isolated cases deliveries are made, but only on such you could hedge in a bucket shop before bucket shops were destroyed. They match the sales in the New York exchange. I do not use the word "match" technically, and they used to match them in the bucket shops. One man will send in an order to buy. I do not care whether they go through one man or two men. The facts are the same within the institution. A man sends an order to the bucket shop to buy a hundred bales of cotton and another sends in an order to the same man to sell a hundred bales of cotton, and those two transactions meet. They say they will not permit that in the New York exchange. What is the difference, in so far as the institution is concerned? You send in an order to Mr. A, a member of the exchange, to buy a hundred bales of cotton. Another man sends in an order to another member to sell a hundred bales of cotton. Those two men meet there within the institution and both orders are executed; the transactions are the same in so far as the public is concerned.

What is the difference? Of course, I know theoretically there is a difference, but in so far as the actual practical effect is concerned, what is the difference? They say that they can demand delivery on the New York contract. I want to show to you, gentlemen of the committee, that delivery is economically impossible, and the day will never come when it will be economically possible for the New York exchange to make deliveries there on its contract. When through bills of lading were established the possibility of New York being a spot market for cotton was destroyed. It takes from 75 to 100 points to take cotton into New York. Its contract provides that delivery must be made in the warehouse of New York.

I do not care what the other provisions of the contract are, there is an economical barrier that prevents the New York exchange ever having a contract upon which it can deliver in New York. Men will not go there to buy cotton. This statement is borne out by the

reports of the committee of the New York exchange on licensed warehouses in the South.

Take the quotations this morning. You will find that spot cotton is worth in Galveston as much as, if not more than, it is in New York. It takes about 80 points to get it up there, does it not?

Mr. MANDELBAUM. Not from Galveston.

Mr. GLENNY. You can ship by sea at about 30 cents a hundred.

Mr. BURLESON. It is about 30 points.

Mr. SUMNERS. In order for that cotton to be delivered, it has to be certificated. They have got to grade it, certify it, and warehouse it. Do you permit delivery anywhere except in the warehouse?

Mr. MANDELBAUM. Not in the contracts.

Mr. SUMNERS. That is what I am talking about. Those things make it impossible.

Now, so much for that. These gentlemen want to ask me some questions, and I will develop that further when they do.

With reference to the proposition of hedging, in my candid judgment the custom is one of the most injurious, so far as the stability of the market is concerned, of any of the systems and customs that have grown up in the whole cotton business.

There are connected with the cotton industry three classes of people, primarily. There is the consumer at one end, and the National Congress must consider him. You have no right to consider the producer as against the interests of the consumer. There is the manufacturer, the transportation man, and the merchant, who constitute a class; but the people who are directly and vitally interested in this matter and who have a right to appeal to the power of Congress to protect them, are the men who produce and the men who consume cotton. Between the producer and the consumer people intervene who prepare the commodity for use; but no man who is a merchant has a right to demand that he be permitted to render a service. There is a difference between the relative rights of those people before the Congress of the United States, and the rights of the man who produces and the man who consumes. The merchant has a right to tender his services, and he has a right to demand pay for the economic value of the service he renders, but he has no right to demand that the people accept his services. Nor does he have the right to disturb the free passage from the producer to the consumer. The producer is entitled to the fair value of his product. The consumer is entitled to receive that product with only such charges attached to it as are necessary to convey it from the producer to him, prepared for his use. The system of hedging produces an economic loss, borne by the producer, or the consumer, or both. The cost of hedging is anywhere between $15,000,000 and $7,500,000 annually. Cotton is bought four or five times, and every time it is hedged, they say.

The man who manufactures cotton goods is entitled to receive his cotton as nearly at a uniform price as economical conditions give it to him. The man who uses cotton is entitled to receive it as near its economic value as it can be given to him. The man who produces cotton is entitled to as near its economic value as it can be given to him. Whenever a merchant or anybody else establishes a system by which the price of the fruits of another man's toil or the commodity which another is bound to use is disturbed materially in its travel along the path that is provided for it by the law of supply and demand,

and that path is between the States, or the States and a foreign country, it becomes the duty of Congress to interfere.

Gentlemen contend that this system of hedging has a tendency to make prices stable. I want to show to the committee as briefly as I can how it is impossible for that to be true.

We will suppose that the total output of the United States is 2,000 bales, just to illustrate. Half of that cotton is sold. Suppose you bought it. Suppose I owned it all. I represent the farmer. You represent the merchant. I have 2,000 bales. You come to me and say, "Sumners, I will buy a thousand of those bales." You give me 10 cents for it. I have the rest of it. Do you think you would be willing to sell any of that thousand bales for less than 10 cents unless you were hanging on the very verge of bankruptcy? You would not do it. You would say, "I paid 10 cents for this cotton and I can not take less. It is not probable that Sumners will take less for the last half of his cotton than I gave him for the other, and I am not going to suffer a loss as long as I can hold on to it." I would not fear your underselling me.

But suppose you go into an exchange and hedge, you cut yourself off from all possibility of improving your financial condition by any raise in the price. You have insured yourself against any loss by reason of a decline in the price, and you have absolutely no interest whatever in protecting the price of the commodity. Your half is adrift on the high seas of commerce, blown hither and thither by every wind of speculation.

There is in the record here the testimony of a merchant who says that after this break in January, when the market was trembling and needed all the support it could get, he went into the market and sold the farmers' cotton at a price lower than the farmers would sell it themselves.

Mr. Cone testified:

In the break that occurred in New York recently, I sold cotton for much less than I could buy it. I told my salesmen: "Boys, call up all the mills, sell all the cotton you can." I said, "Fill the order books." They called up and we sold; in fact, we did not have to call them up. The mills called us up, and we have orders on our books running clear into August, and that cotton we sold is still owned by those gentlemen over there (indicating the farmers). But why did we sell it? Because we knew that somebody is selling something in New York for less than it was worth. As each sale was made I telegraphed my brokers in New York to buy me July or to buy May cotton.

That is possible under this magnificent system of hedging that they talk so much about. When the market is breaking, when every man ought to stand under it and get it to a stable basis, these men, by reason of this system of hedging, undersell the farmers, sell the cotton they do not own, at a cheaper price than the farmers would sell. That is the testimony in this case.

I grant you, gentlemen, if you pass this bill, there will be some disturbance.

The CHAIRMAN. What do you think would happen in the case just referred to by the gentleman from New Orleans who, as an exporter, has sold 50,000 or 60,000 bales? It may take him six months to gather it. In the absence of the hedging system would it be impossible, in your judgment, for such a transaction to be made?

Mr. SUMNERS. No, sir; I will tell you what I think would come about. These exchanges would become exchanges in truth and in fact. They are not exchanges now. There is not a large cotton exchange in the United States to-day. There is not a place where the man who wants to buy goes to meet the man who wants to sell. There would have been more than 40,000 bales of cotton delivered on the New Orleans contract since last September had it been a real exchange. There would be much more cotton delivered than has been delivered on the New York contracts were it a real exchange. These gentlemen who are merchants are finely equipped. They buy cotton all over the country. Exchanges would develop, Mr. Chairman.

There was a day when these institutions were exchanges, but the gambler went to those exchanges and offered just as much commission for the privilege of gambling as the man who has spot cotton to sell offered for selling it. There is where the trouble came in. The vice crept into these exchanges. Instead of strangling that vice when it came it was permitted to grow, and just as vice always does when it is given a free opportunity, it strangled out the legitimate transactions on the exchanges.

There would develop great spot exchanges, and I will tell you what this merchant would do. To illustrate, I would say to him, "I want you to deliver me cotton in six months." He would say, "All right; I will deliver that cotton at 50 points on the spot quotation on a given spot exchange at the date of delivery." We would get down to business then.

Mr. GLENNY. May I ask whether that would be permissible under the bill?

Mr. SUMNERS. Absolutely.

Mr. GLENNY. He would be selling something he did not have and which he could not get.

The CHAIRMAN. But he has the bona fide intention of buying.

Mr. SUMNERS. He has not hedged. He has not sold anything. He has made an independent contract with me. That is the character of what I believe would be done.

The CHAIRMAN. Would that meet the need of the spinner? The argument, with which I have no doubt you are familiar, is that the spinner must know to-day what the cotton he expects to spin six months from now is going to cost him. Under your suggestion he would not know that.

Mr. SUMNERS. I am glad to answer that. Of course it is merely a matter of opinion as to just what would be done. In the case that was suggested here yesterday the spinner, we will say, must sell his goods a year and a half in advance. Now, he makes a price based on the price of cotton or cotton futures at the time he makes the contract. He hedges against that sale. Therefore the only profit he expects to receive is the profit based on the price of cotton at the time of the contract and the price he has agreed to sell his cloth for. He has figured in, of course, all his expenses—that is, the price of cotton, labor, fuel, and those other expenses that must occur, and he has figured, say, half a cent per yard profit. The reason he sells this cloth a year and a half in advance is that he may be certain of a market for the output of his mills at a fair profit.

He has already determined in advance what his profit is going to be. Why could not that spinner make this sort of a contract with the cotton merchant, if he wanted to make a contract to protect himself? We will say cotton is worth 10 cents a pound and he is manufacturing gingham, for instance, which he is willing to sell at 5 cents a yard. Why could he not make that sale on the basis of 10 and 5, providing that the price at which he is to make the delivery be determined by the fluctuation of cotton above or below 10 cents—his selling price based on cotton at 10 cents and his cloth at 5 cents?

Mr. MANDELBAUM. How about his ginghams? He would not get any more for his ginghams?

Mr. SUMNERS. Why not? You did not listen to me. That is the reason you did not hear what I said. I am not undertaking to say, Mr. Chairman, what sort of a system these men are to adopt. I think it will work itself out.

The CHAIRMAN. The suggestion I understood you to make just now was that the spinner would make a contingent contract with the customer for his cloth.

Mr. SUMNERS. A basic contract; yes, sir; based on ten and five, with the fluctuations. I am not a practical spinner. I do not know how that ought to be measured, but with such fluctuations as will give him when he makes his final sale the profit he would have made if the cotton had remained 10 cents per pound. There is nothing arbitrary about that.

Mr. MANDELBAUM. May I interject one question? You would not consider that a gambling contract, would you?

Mr. SUMNERS. Not at all.

Mr. MANDELBAUM. Neither the seller of the cotton nor the buyer of the ginghams would know what he was doing. In my opinion that would be a gamble, pure and simple.

Mr. SUMNERS. This is a country, you know, where everybody has a right to an opinion. That is not mine. I think that is a contract that is absolutely devoid of all gambling, for the reason that this man has figured that he would make half a cent a yard on his gingham. That is all he will make at any time. Now, if at the time he has to buy the cotton the very cotton that goes into the gingham has gone up, ought not the man who buys the gingham to pay more? On the contrary, if at the very time he buys the cotton that goes into the gingham cotton has gone down, why ought not the purchaser of the cloth to get it at less? If there is any gamble in that, I am sure I can not discover it.

As I say, I do not think I am going to get any patent on this.

Mr. MANDELBAUM. You ought to on this proposition. [Laughter.]

Mr. BEALL. Mr. Sumners, I notice that the members of the New York Cotton Exchange exhibit evidences of amusement over that proposition. Do you not think they would have been just as much amused if the proposition had been submitted to them thirty years ago that New York would cease to be a spot-cotton market?

Mr. SUMNERS. Yes, sir. I do not think they ever dreamed of it.

Mr. BEALL. Does the manufacturer of cotton goods have any trouble in disposing of his product to the retail merchant?

Mr. SUMNERS. I am not familiar with that, Mr. Beall, but I understand not.

Now, just one additional thing, Mr. Chairman. They talk about this hedging system adding to the demand. With all due respect to the gentlemen who make that suggestion, it does not occur to me as being a serious proposition. The fellow who adds to the demand for cotton is the consumer. I do not care whether it is a man who buys a shirt like I have or just wears one garment in Africa. He is the fellow who fixes the demand for cotton—the man who uses the cotton.

These gentlemen have the New York Exchange so big in their eyes that they feel that if you should abolish it the stars would fall. Well, I will not say that; that would not sound right, but they believe that if you abolish the New York Exchange this whole thing will go all to pieces.

It is the biggest thing they know about; it is so close up to them. They are honest about it. We believed in the South that if the institution of slavery were abolished—I have referred to that already, and I will come back to it—we would be absolutely ruined, and yet every man who is informed down there knows that if it had not been abolished, in two or three generations more civilization in the South as we know it would have perished. These exchanges afford the temptation and the machinery to send the market up or send it down. Operations on them constantly disturb it. The New York exchange could not live if it had a stable market. Its very existence depends upon the going up or down of prices. People will not go in there and buy on a stable market, and they know it. They thrive upon a disturbed market.

There is nothing personal in that statement, but I believe every man of fair information must recognize that these exchanges are disturbing elements, interfering in the passage of commodities from the producer to the final consumer. The people of this country are too resourceful to have to depend on an institution of that kind, that confessedly has gambling mixed up in it, in order for the men who produce the cotton to be able to carry it in to the men who consume it.

So far as I am concerned and so far as the other men who have appeared here as producers, or for them, are concerned, we are willing to take the chance. I understand that legislators can not foresee what will happen. Nobody can. I do not know how many other manufacturers have appeared here in opposition to the bill, but I believe no manufacturers have appeared who are not connected with the exchanges. Manufacturers generally are willing to take the chance. I believe the consumers of this country are willing to take the chance. The only people I find who are seriously objecting to this measure are the members of the exchanges, and their rights as compared with the rights of the producer and consumer do not stand in the same class. If the producer and the consumer do not want their services, or find their activities to be injurious, it seems to me that is the end of it.

Mr. Lever. Mr. Sumners, before you close I would like you to give the committee your idea, very briefly or as much at length as you please, just how dealing in future contracts works to the injury of the producer and the ultimate consumer of cotton.

Mr. Sumners. Mr. Chairman, we have a peculiar condition in the South with reference to the production of cotton. I have just gone through a rate hearing in my State in which it was disclosed that by

reason of the fact that cotton was rushed upon the market during about three months in the year it is necessary for the railroads of the country to provide for themselves a tremendous additional equipment which they must have tied up during the rest of the year. It is necessary for the banks of the country to provide a very much larger equipment; and so with the whole machinery in my section of the country.

The farmers of the country would market their cotton gradually if they could. I do not mean if they financially could, because the banks of the South and the farmers of the South are able now to do it; but they do not know what to do. Take the January situation, for instance. The season opens up. The farmer has his cotton at home. The economic thing to do is to market it, say, during ten months in the year. Mr. Thompson, I believe, advocates that scheme. His cotton is worth 15 cents. He does not know what it is going to be worth next day. He does not know whether they will raid the market, as they did in January, and break it. He does not know how much higher it is going, because it is not responding to the law of supply and demand. The result is he dumps the whole crop on the market. The cotton of the South went to market at about 13 cents, I believe. It was economically worth 15 cents. A great deal of that cotton was bought by European speculators. I do not know how much, but we will suppose it all was, in order that the figures may go in the record. The difference between 13 cents and 15 cents on 11,000,000 bales is $110,000,000. If that cotton had all been bought by European speculators, or by whomever it was bought, it was an economic waste of that amount in so far as producers are concerned. We believe that if these outside influences were destroyed, if the disturbing influences were destroyed, after the cotton comes in sight then its price would not break as it does now. It certainly would not if this system of hedging was not in vogue, because the men who buy cotton at 15 cents would not sell it for less than that.

There are some other minor features about it, but in my judgment the most serious thing produced by the system of speculation is the disturbance of the market, which renders it impossible for the farmers of the country to apply sane business methods in the marketing of their product. I believe it is a tremendous economic loss to the whole United States. We depend on cotton for our balance of trade. I do not say that absolutely, but the amount of cotton exported is larger than the balance of trade in America.

Mr. Lever. What applies to the farmer applies to the spinner also, does it not?

Mr. Sumners. Absolutely.

I am not in favor, Mr. Chairman, of sending cotton higher than the law of economy sends it, because it always reacts. All that the producers of this country want is a market governed by the law of supply and demand, undisturbed by such influences as are traceable to the great exchanges of the country, and I think from the national standpoint that abnormally high prices have a tendency and will have a tendency to develop large competitive territories outside of the United States for the production of cotton.

As a matter of fact, with the market shot to pieces the spinner does not know what to do. It is in testimony here that hedges on the exchanges do not protect the spinner. It can not do so when

with regard to cotton exchanges is, in so far as it deals with the New York Cotton Exchange, unjust and unsound.

We feel very keenly the fact that a statement made by us not in the presence of Mr. Herbert Knox Smith must have the appearance of an ex parte statement, a mere protest on our part, and can not carry the weight either with this committee or with Congress or with the people of the United States, many of whom will doubtless read the record of these hearings, which would be carried by a statement made face to face with Mr. Herbert Knox Smith himself, where he had an opportunity to controvert any criticisms which might pass upon his work.

We feel, of course, that the report of Mr. Herbert Knox Smith, or of the Bureau of Corporations, signed by Mr. Herbert Knox Smith, is very injurious to the New York Cotton Exchange, and very unjustly injurious to that exchange. We believe that the report is essentially unsound in its methods and unwarranted in its conclusions.

I do not suppose that this committee desires me to go into the particular grounds for our belief that the report of the Commissioner of Corporations is of this character. I am ready to do that if the committee desire it to be done. I will simply say, briefly, that the report of the Bureau of Corporations on exchanges, though it contains a very large quantity of very valuable material, laborously collected and clearly set forth, is characterized from beginning to end by inaccuracy of definition of the terms which are the critical terms in the whole discussion, is characterized by constant failure to bring out the real factors and essential matters, and is consequently vicious in its conclusions, because without a systematic and specific laying out of the facts it is of course impossible to arrive at just conclusions.

The CHAIRMAN. Mr. Marsh, if you would like to elaborate that statement and go into the question a little more fully, I am quite sure the committee would be glad to have you do so.

Mr. MARSH. I will do it very briefly, Mr. Chairman, though I do it under a sense of a kind of mental oppression, from the fact that Mr. Smith is not here.

In the first place, there are three terms which are in use in the discussion of the cotton exchanges constantly employed by Mr. Smith and about the correct use of which the whole discussion hangs. Those three terms are, first, "cotton exchange;" second, "spot cotton;" third, "hedge."

Now, any person who undertakes to discuss cotton exchanges without having adequately and scientifically determined the meaning of those three terms is simply beating the air, and Mr. Smith has not determined, scientifically or adequately, the meaning of any one of those three terms. He uses them in the vaguest, most general, and most popular sense. He has in no part of his report scientifically studied what a cotton exchange is. There is no part of his report in which, historically and analytically, a cotton exchange, as a genus. as a thing in nature, is discussed. He has not discussed what classes of men or what class of men constitute cotton exchanges, what class of men the cotton exchange is intended for. He has jumbled into one pot, so to speak, cotton merchants, cotton spinners, cotton producers, cotton speculators. One minute he is adducing a criticism from a speculator, the next minute, from a spinner, and the next minute, from a producer.

The result is that his discussion is constantly vitiated by these intrusions of matters that ought to have been excluded and which he himself would have excluded if he had scientifically and analytically examined the fundamental of what a cotton exchange is.

In the second place, Mr. Chairman, one of the most extraordinary features of the whole report is the way in which Mr. Herbert Knox Smith juggles with the words "spot cotton." Spot cotton throughout the report is, to the eye of one familiar with the trade, middling cotton. That appears to be what Mr. Smith has in his mind when he talks about spot cotton. Low middling cotton, according to Mr. Smith, is not spot cotton. Good middling cotton is not spot cotton. Good ordinary cotton is not spot cotton. Middling fair cotton is not spot cotton. Spot cotton is middling cotton, and in his whole discussion of the relative values of contracts for future delivery of spot cotton, he is playing upon this misconception, misstatement of what spot cotton is.

In the third place, Mr. Smith knows nothing, from first hands, of hedging. He has not used the facilities for obtaining the information which would gladly have been furnished him. The report is bestrewn with misstatements about hedging which could have been avoided by the asking of a single question of a competent person.

Mr. BURLESON. Mr. Marsh, do you not think you ought to point out those misstatements instead of indulging in these denunciations?

Mr. MARSH. I have said, Mr. Chairman, that we desire now simply to make a general statement, that I do not desire, and am unwilling, to go into a detailed discussion of these matters except in the presence of Mr. Smith. That position I must adhere to.

Mr. BURLESON. It strikes me it would be less objectionable to Mr. Smith if you would point out specifically wherein he was mistaken instead of indulging in a general denunciation of the report he has made.

Mr. MARSH. Mr. Chairman, I am not speaking from the point of view of Mr. Smith, or what is pleasant or unpleasant to Mr. Smith. I am speaking from the point of view of a free American citizen, a cotton merchant who has a right to speak to the representatives of the American people, and to state his mind to them.

To go on, Mr. Chairman, one word more with regard to the matter of hedging.

Throughout the report of Mr. Smith the word "hedge" is used especially to mean a buying hedge. Occasionally, like a bone to a dog, a word is dropped about the hedge which the cotton merchant has to sell; but the whole discussion in the report depends upon hedge in the sense of a buying hedge.

There, then, Mr. Chairman, are three essential, critical terms, terms which have to be used on every page of every volume of every part of this report, which Mr. Smith did not take the trouble critically to examine, critically to define, and, worst of all, critically to get full information about.

I have mentioned those three terms because they indicate the character of our objection to Mr. Smith's report, to the work which Mr. Smith has published to the world, as describing the New York Cotton Exchange in particular. A large number of subsidiary matters he has treated in the same way. His remarks about hedging not being insurance are too absurd for characterization. His ignorance of what

takes place actually, in fact, with regard to speculation as a supposed necessity for carrying all the hedges against all the cotton in the world is ancient history, and no one familiar with the facts would for a moment accept what Mr. Smith says on that subject.

Mr. Burleson. Mr. Chairman, I hold no brief for the defense of Mr. Smith, but I protest against these general denunciations and characterizations of Mr. Smith without giving a single detail upon which they are based. I think it is only fair, if they are going to embody in these hearings wholesale denunciations of Mr. Smith and Mr. Smith's report, that they should at least put their finger upon one statement contained in the report as a basis for these denunciations. As a matter of fact, the conclusions reached by Mr. Smith are largely based upon statements made to him by members of the exchange, and I challenge an investigation of this report to support me in that statement.

Now, I am perfectly willing for the representatives and defenders of the New York exchange, if they can point out an error in this report of Mr. Smith, to point it out. I went to the Chairman a moment ago and said I was perfectly willing, if there was a false statement in there or a misstatement in there, to have it pointed out by Mr. Marsh, and I hope he will be invited to point it out, because if there is error there I want to know it; but I do say and I do protest that this general denunciation of Mr. Smith and the general characterization of his report indulged in by Mr. Marsh ought not to be permitted.

Mr. Mandelbaum. Mr. Chairman, Mr. Marsh started out in making his argument by saying he was embarrassed by the fact that Mr. Herbert Knox Smith did not feel it incumbent upon him to be present at this hearing or at any other hearing at which he desired to make that statement in the presence of the very man who made the report. Mr. Marsh consented to make his remarks as briefly as possible, and he has brought them out in a more elaborate manner by the request put to him by the chairman of the committee that he should make a fuller statement of the matter at issue. I do not believe, Mr. Chairman, it is the duty of Mr. Burleson or that it becomes Mr. Burleson to raise an objection to a statement which Mr. Herbert Knox Smith was notified would be made in connection with this matter to-day, or would be made when he could be here if he could not be here to-day. Mr. Smith is not a czar. He is only a servant of the American people, and we have a right to controvert his statement and we intend to exercise it.

Mr. Beall. I submit that is a matter for the committee to determine, not for Mr. Mandelbaum.

The Chairman. The report of Mr. Smith is a public document which is in the hands of the committee. Mr. Marsh, representing the New York Exchange, is stating his opinion and the opinion, I presume, of his colleagues, as to the consideration which ought to be given this report by the committee. His statement might be stronger if certain things were included; it might be weakened if certain things were left out; but he is making the statement, and I take it that the committee would prefer that he follow his own course in the matter and reserve to himself the right to form such conclusions after the statement is made as the manner of the statement and the matter of it seem to warrant.

Mr. Lever. After all, we pass upon these.

The CHAIRMAN. We pass upon them finally.

Mr. MARSH. Mr. Chairman, I hope I have made it perfectly clear that I am not only willing but should be extremely glad of an opportunity to take up these points in detail, with specific illustrations from the report of Mr. Herbert Knox Smith, and bring out in the fullest way to the committee the grounds of our strong dissent from them, but that a discussion of that kind not in the presence of Mr. Smith seems to me to put the New York Cotton Exchange in a wrong position.

The CHAIRMAN. Proceed in your own way, Mr. Marsh.

Mr. MARSH. I have only one more point to bring out, Mr. Chairman. Mr. Smith has himself said, if I remember correctly the words, that the question of the method of fixing the differences, that is to say, the valuation of the different grades of cotton deliverable upon a contract, is the crux of the whole matter. About this Mr. Smith has laid down a certain principle or rule. He has said, not once but many times, in his report that the New York Cotton Exchange does not conform to that rule. He has said that that rule is the only just and equitable rule or principle to be followed in fixing differences between grades. He has further said that if the New York Cotton Exchange can not conform to that rule it has no right to exist.

Now, Mr. Chairman, Mr. Smith has announced a very terrible rule, a rule so binding, so imperative, that those who do not conform to it have no right to exist; and yet, Mr. Chairman, Mr. Smith himself in his own report says that this rule does not work, and he winds up by saying that although it does not work yet it is the only just and equitable rule, the only just and equitable principle, and, irrespective of whether it works or does not work, it must be adopted or those who refuse to adopt it should go out of existence.

Mr. Chairman, I have been wanting for a long time to ask Mr. Smith where he got this rule, this imperative principle. So far as I can find out the curious thing is that the rule does not exist. There is no such rule. There is no such principle. Mr. Smith has evolved it out of his own inner consciousness, or he has taken it from vague common talk, or he has got it I know not where. There is nowhere, so far as I know, any scientific investigation of these phenomena of nature which has resulted in the discovery of any such rule or any such principle.

Mr. Chairman, the members of the New York Cotton Exchange feel that it is a little hard on them to be told that because they can not see the imperativeness of a principle which has never been scientifically demonstrated by anybody, and because they can not see their way immediately to adopt it, they should be told they have no right to exist.

The severe terms in which Mr. Smith has laid down this principle, his iteration of it through the pages of his report, have been very hard for us cotton merchants of New York to endure. We realize, Mr. Chairman, that the Bureau of Corporations is being every day more and more put forward as the final arbiter of that which is right and reasonable and equitable in business in the United States; and here, Mr. Chairman, is the first great work of the Bureau of Corporations, the first attempt of the Bureau of Corporations to describe a great business and the men who are engaged in that business, who know that if the principles which they follow in that business are not

sound and just principles they are going to lose their business. I say these men in this business, when they come to analyze this first judgment of the Bureau of Corporations upon a great business, find as they believe that that judgment is based upon loose, vague terms, and that it is a plea for a principle asserted to be the only just and equitable principle in that business, when no one, not even the Commissioner of Corporations himself, has scientifically investigated the phenomena to find out whether there is any such principle or not.

As representatives of the New York Cotton Exchange, we have desired from the start to thrash this matter out face to face with the Commissioner of Corporations. We desire to do what is just and what is right. If the Commissioner of Corporations is right, we wish to bow to his intellectual authority, though, Mr. Chairman, we do not feel that we are called upon to bow to his political authority. But we are deprived of the opportunity of thrashing this matter out face to face with Mr. Smith, and all we can say is that we have given this committee a statement, on the face of it ex parte, which must carry such weight as an ex parte, uncontroverted statement can carry. We still say, however, that if the committee desires it at any time, to-day or to-morrow or next week or next month or next year, we shall welcome the opportunity to appear here face to face with the Commissioner of Corporations and thrash this matter out.

I have nothing more to say.

The CHAIRMAN. Are there any other gentlemen here who care to be heard briefly? I believe this is the last public hearing that the committee expects to give.

Mr. NEVILLE. Mr. Chairman, I would like to ask if the paper you handed me just now will be embodied as a part of this hearing?

The CHAIRMAN. Yes; it will be included.

Mr. NEVILLE. May I request, then, that Mr. Marsh's remarks be allowed to be a part of the record?

The CHAIRMAN. The remarks he has just concluded?

Mr. NEVILLE. Yes, sir.

The CHAIRMAN. Certainly; they are to be a part of the record of the hearing.

It is perhaps only fair for me to state that Mr. Violett, who was before the committee yesterday, asked me privately if he might file some two or three letters that he had from other members of the exchange, signifying a concurrence with the views he expressed. (See Appendix, page 691.)

Mr. NEVILLE. They will be embodied in the report. We have no objection at all, Mr. Chairman.

The CHAIRMAN. If there is nothing further, the committee will adjourn.

(The subcommittee thereupon adjourned.)

PREVENTION OF DEALING IN FUTURES.

APPENDIX.

BRIEF SUBMITTED BY THE NEW YORK COTTON EXCHANGE IN OPPOSITION TO H. R. 7521 (SCOTT BILL), H. R. 3041 (BURLESON BILL), AND SIMILAR PROPOSED LEGISLATION NOW UNDER CONSIDERATION BY THE COMMITTEE ON AGRICULTURE OF THE HOUSE OF REPRESENTATIVES.

POINT I.

The economic conditions as related to the New York Cotton Exchange have been fully set forth in the argument made by Mr. Arthur R. Marsh before your committee, but may be summarized briefly as follows:

(*a*) The New York Cotton Exchange is an association of cotton merchants who have agreed among themselves upon certain by-laws and rules which shall govern contracts which they make, one with another, relating to the purchase and sale of cotton on the spot in New York, of cotton to arrive in the port of New York, and of cotton for future delivery in the port of New York.

(*b*) The contracts which these merchants make with each other (or for the account of persons who are not members of the New York Cotton Exchange), subject to the by-laws and rules which they have adopted, are contracts wholly confined to the State of New York, and are in no sense of the word of the character of interstate commerce.

(*c*) The membership of the New York Cotton Exchange embraces cotton merchants, not only in the city of New York, but also in large numbers established throughout the cotton-producing States and in the cotton-consuming countries all over the world.

(*d*) These merchants in the pursuit of their business, and to a large extent relying upon the facilities afforded them by their membership in the New York Cotton Exchange, handle every year in excess of 80 per cent of the entire cotton crop of the United States.

POINT II.

Contracts for the future delivery of cotton, constituting the larger part of the business done by members of the New York Cotton Exchange in New York, are the outcome of a long historical development of the cotton trade in all parts of the world, and represent the best judgment and experience of cotton merchants, as to the necessary means for handling the heavy burden which is placed upon

them in the annual distribution of the cotton crop. These contracts, which are used by merchants for what is called "hedging" purposes, afford not only these merchants themselves, but through them, all producers and consumers of cotton, and all distributors of cotton goods, the only available means for distributing throughout the world the great risks involved in handling a commodity whose annual production is of so uncertain a character that great fluctuations in price are inevitable. Through the facilities afforded by the exchange, and through the use of these contracts, there has become possible an ever ready market both for the sale and for the purchase of cotton, and the producer of cotton is thus enabled at any time in the year when the price suits him to sell his entire crop, and the manufacturer of cotton goods is enabled to enter upon contracts for the production of any kind of goods for delivery in the distant future. For more detailed statements upon these points, we refer to the arguments made by Messrs. Marsh, Neville, and Hubbard.

We desire particularly to call attention to the disastrous effects upon the manufacturers of cotton in the United States if these facilities, which are now available to American spinners either directly or through cotton merchants, are done away with, thus throwing the business of contracting in advance for goods into the hands of foreign spinners who will be able to avail themselves of the opportunity to hedge either in Liverpool or in Havre. It goes without saying that the greatest of all sufferers under these conditions will be the American labor now employed in the cotton manufacturing industry. (See the closing argument of Mr. Mandelbaum.)

Point III.

A further consideration which should have great weight in the minds of all legislators who have at heart not only the best interests of the cotton producers of the United States, but also the economic welfare of the country as a whole, is, that it is only through exchanges located in the United States, and consisting primarily of American cotton merchants, that the interests of this country as a producer, seller, and exporter of cotton can be thoroughly safeguarded. Foreign exchanges are in the nature of the case dominated by the interest of buyers and consumers of cotton, and their rules and regulations inevitably reflect that interest.

The New York Cotton Exchange has an economic interest both in the prosperity of the cotton producing section of the United States and also in the prosperity of the country as a whole. As the members of the exchange realize that their own business success is bound up with the economic success of the whole country, they are in a position and have a motive for protecting the just rights of the American cotton producer which can not be true of the members of foreign exchanges nor of the interests which they represent.

Point IV.

The destruction of the business of the American cotton exchanges would certainly have a most serious effect upon the financial position of the United States in international trade. Not only would the

steady marketing of the cotton crop, which depends upon a ready market for bills of exchange drawn against cotton, be greatly disturbed and at times rendered practically impossible by the withdrawal of opportunities for hedging, but in a larger sense the entire balance of trade of the United States would almost certainly be profoundly affected. It is a fact beyond dispute that during the past year the existence of cotton exchanges in the United States in which were carried hedges, not only against cotton in the United States but also against the undistributed cotton of the entire world, has led to remittances from foreign countries to protect these hedges of not less than $150,000,000.

Point V.

Although the criticisms of the New York Cotton Exchange embodied in the report on Cotton Exchanges by the Commissioner of Corporations, Mr. Herbert Knox Smith, deal almost exclusively with the manner in which the members of the New York Cotton Exchange have exercised their judgment with regard to the internal economy of the Exchange, and although we not only strongly dissent from the justice of these criticisms, but also understand that your committee regards these matters as not properly pertinent to the subject of the bills now under consideration, we must point out here that the Exchange from its inception has never failed to work for the improvement of the economic conditions under which the cotton crop of the United States is marketed; always giving due consideration to the producer of the crop and affording him an opportunity to market the qualities of the crop he is able to produce at just values for those qualities, the production of which he can in no manner control. In order to arrive at a scientifically accurate valuation of the various qualities above and below middling, this Exchange has gone to a large expense. It is still conducting these tests, and we refer to the preliminary results demonstrated by Mr. Neville before your committee.

Point VI.

The question of the legality of the contract traded in upon the New York Cotton Exchange making compulsory, by by-laws and rules, the delivery of cotton, if sold, and the receipt of cotton, if bought, can not be questioned. It has stood the scrutiny of the Supreme Court of the United States, as shown in the decision by Justice Holmes in the case of the Chicago Board of Trade *v.* Christie, a decision which has had to be followed in all the federal courts, even in the South, notwithstanding their state laws to the contrary. It has recently been reaffirmed by the appellate division of the supreme court of the State of New York, which by a unanimous court upheld the referee in the case of Springs & Co., respondent, *v.* D. W. James, appellant, a copy of which is herewith annexed and marked "Exhibit A."

As the contracts made upon the New York Cotton Exchange are made entirely within the State of New York, Congress can neither claim nor has the right of direct interference or prohibition. The proponents of the bills under consideration by your committee therefore endeavor to set forth a moral issue and, under the cloak of this,

arbitrarily to exercise the power of Congress over mail and telegraph to interfere with the business carried on under jurisdiction of a State.

Congress, in our opinion, has not the right to prohibit the use of the mail or telegraph unless it is clearly shown that the business conducted by their aid is of an absolutely and grossly immoral character. The fact that the instrumentalities of this business might be employed occasionally by some unscrupulous person for illegitimate purposes does not detract from the legality of the business itself, and unless it can be shown that the business is of an inherently immoral character it would be, in our opinion, not within the power of Congress to lay upon it such prohibitions. The case of Champion *v.* Ames (188 U. S.) has been cited by one of the supporters of the proposed legislation, who endeavored to point out the right of Congress in this matter to be parallel to the case above cited. In this case, in order to get jurisdiction, the Supreme Court of the United States declared that lottery tickets are an article of commerce and that the sending of them from one State to another constitutes interstate commerce. To make that case parallel to the one at issue Congress would have first to prohibit the sending of cotton from one State to another. We do not think that anything like this is contemplated by the proponents of the different bills.

Point VIII.

Apart from the question of the possible constitutionality of the proposed legislation, we desire to draw attention to the dangers attending any attempt to restrict or prohibit that which people engaged in a given business regard as an inherent necessity of that business. To strive to force men to give over that which has become to their minds absolutely essential in the conduct of their affairs is simply to encourage them to seek for methods of doing that which they feel they must do, even though those methods come perilously close to evasion of the law. It must be a serious question in the mind of every citizen familiar with the existing business of distributing the cotton crop whether the proposed bills, if enacted into law, would not inevitably give rise to the commission of perjury, evasion, and circumvention of the law. And even more must this be the case when these citizens believe that Congress has itself, by roundabout and unwarranted means, strained its legislative powers to obtain jurisdiction in matters over which, as shown by the tenor of the different bills under consideration, it has no direct concern and over which it has no proper jurisdiction.

All of which is respectfully submitted.

Geo. W. Neville.
S. T. Hubbard.
L. Mandelbaum.
Arthur R. Marsh.
Eli B. Springs.

EXHIBIT A.

[On title page: New York Supreme Court, Appellate Division—First Department. Richard A. Springs, William D. Martin, and Eli B. Springs, plaintiffs-respondents, *v.* David W. James, defendant-appellant. Opinion. Edward D. Brown, attorney; John R. Abney, counsel for plaintiffs-respondents. Ivins, Mason, Wolff & Hoguet; Smith, Hammond & Smith, Atlanta, Ga., attorneys for defendant-appellant. Herbert D. Mason, Victor Lamar Smith, Robert L. Hoguet, and William L. Ransom, counsel.]

SUPREME COURT—APPELLATE DIVISION. FIRST DEPARTMENT, FEBRUARY, 1910.

George L. Ingraham, P. J., Frank C. Laughlin, John Proctor Clarke, Francis M. Scott, Nathan L. Miller, JJ.

Richard A. Springs, William D. Martin, and Eli B. Springs, respondents, *against* David W. James, appellant. No. 4421.

Appeal from a judgment entered upon the report of a referee to hear and determine.

Herbert D. Mason, of counsel, Robert Louis Hoguet, Victor Lamar Smith, William L. Ransom, with him on the brief (Ivans, Mason, Wolff & Hoguet, attorneys), for appellant.

John R. Abney (Edward D. Brown with him on the brief) for respondents.

CLARKE, J.:

The plaintiffs are members of the New York Cotton Exchange. The defendant resides in Blakely, Ga., and owns 9,000 acres of land in Georgia and 240 in Alabama, upon which he raises cotton, 1,000 to 1,500 bales a year; owns a cotton warehouse which handles from 6,000 to 8,000 bales a year; is engaged in the mercantile business; in the oil fertilizing business; is the president of three banks and a director of two others.

He has been engaged for twenty to twenty-five years in the cotton business and, upon his own testimony, has bought and sold cotton upon the New York Cotton Exchange through members thereof for fifteen or twenty years; and for some two years prior to the beginning of this suit had transacted such business through and with the plaintiffs and their immediate predecessors in business.

The complaint sets up five causes of action: Three for money laid out and expended for defendant's use and at his request in purchases and sales of cotton for future delivery, upon the New York Cotton Exchange and subject to its rules and regulations, made upon the orders of the defendant, statements having been rendered of such transactions, partial payments made by defendant and promises to pay the balance; the fourth for interest paid on various sums used in said trades; and the fifth upon an account stated for the balance shown upon the final statement rendered of $48,672.13, and a promise to pay.

Summarily stated, the defense is that the New York Cotton Exchange is a bucket shop and that the matters set forth were gambling transactions upon which there can be no recovery. Subsidiary

thereto defendant claims that the plaintiffs in their dealings with the cotton bought and sold for his account, so conducted themselves as to violate the law of agency, and thereby to relieve him of all responsibility for their acts and of liability to them.

An enormous record has been presented to this court, setting forth in minute detail, with hundreds of exhibits, the various and intricate steps in a large number of transactions. The whole record has been carefully examined, but no attempt will be made to state more than the ultimate facts.

The New York Cotton Exchange was incorporated by a special act of the New York Legislature, chapter 365 of the Laws of 1871, amended by statutes passed in the years 1880, 1881, and 1883. The purposes of the corporation, declared in the act, were:

To provide, regulate, and maintain a suitable building, room or rooms, for a cotton exchange, in the City of New York, to adjust controversies between its members, to establish just and equitable principles in the trade, to maintain uniformity in its rules, regulations, and usages, to adopt standards of classification, to acquire, preserve, and disseminate useful information connected with the cotton interest throughout all markets, to decrease the local risks attendant upon the business, and generally to promote the cotton trade in the City of New York, increase its amount, and augment the facility with which it may be conducted.

The corporation was given power to make all proper and useful by-laws not contrary to the constitution and laws of the State of New York or of the United States. There are many by-laws and rules providing for the inspection, classification, storage, sampling, and delivering of cotton and generally regulating the conduct of the members of the exchange and protecting their customers.

Section 34 of the by-laws provides as follows:

Any member of the exchange who shall be interested in or associated in business with, or who shall act as the representative of, or who shall knowingly execute any order or orders for the account of any organization, firm, corporation, or individual engaged in the business of dealing in differences on the fluctuations in the market price of cotton without a bona fide purchase and sale of the property for an actual delivery (commonly known as a bucket shop), or for anyone acting as agent for such organization, firm, corporation, or individual, shall be deemed guilty of unmercantile conduct, which renders him unworthy to be a member of the exchange; and upon conviction thereof he shall be expelled from membership in the exchange by the board of managers.

The method of conducting purchases and sales upon the exchange is by public outcry across and around the "ring." The ring is a space on the floor of the exchange inclosed within a railing, and encircled by an elevated platform 2 or 3 feet wide, led up to by a step or two. The amount and price are recorded by the exchange reporter.

Section 93 of the by-laws provides as follows:

No contract for the future delivery of cotton shall be recognized, acknowledged, or enforced by the exchange or any committee or officer thereof unless both parties thereto shall be members of the New York Cotton Exchange, and the contract shall be in the following form, viz:

New York Cotton Exchange. Contract. New York ———. In consideration of $1 in hand paid, receipt of which is hereby acknowledged, ——— ——— have this day sold to (or bought from) ——— ——— 50,000 pounds in about 100 square bales of cotton, growth of the United States, deliverable from licensed warehouse in the port of New York between the first and last days of ——— next, inclusive. The delivery within such time to be at seller's option in one warehouse, upon notice to buyer, as provided by the by-laws and rules of the New York Cotton Exchange. The cotton to be of any grade from good ordinary to fair, inclusive, and if tinged or stained, not below low middling stained (New York Cotton Exchange inspection and classification) at the price of ——— cents per pound for middling, with additions or deductions for

other grades, according to the rates of the New York Cotton Exchange existing on the day previous to the date of the transferable notice of delivery. Either party to have the right to call for a margin, as the variations of the market for like deliveries may warrant, and which margin shall be kept good. This contract is made in view of and in all respects subject to the rules and conditions established by the New York Cotton Exchange, and in full accordance with section 92 of the by-laws.

——— ———.

Verbal contracts (which shall always be presumed to have been made in the foregoing form) shall have the same standing, force, and effect as written ones, if notice in writing of such contracts shall have been given by one of the parties thereto to the other party during the day on which such contract was made, or on the next business day thereafter.

Section 118 of the by-laws provides that—

It shall be the duty of the seller, on the day on which transactions in contracts take place, to furnish a contract or slip and deliver his own, already signed, the opposite one in blank, to the buyer; the latter shall then sign his contract, or slip, and return it to the seller * * *;

and the form of the slips is prescribed. A sample of such "slip" in evidence reads as follows:

New York, Auguest 31, 1906. Bought of Springs & Co., successor to J. H. Parker & Co., and agree to receive from them, subject to the by-laws and rules of the New York Cotton Exchange 2,500 B. cotton Dec. delivery at 9.08 R. H. R. & Co.

which interpreted means 2,500 bales of cotton for December delivery at 9.08 cents per pound, and signed by the member of the exchange buying, and the corresponding sold note or slip specified that the signer agrees to deliver. This short form or slip under the by-laws is the equivalent of the long form of contract provided for, with all its terms and conditions.

Immediately upon executing an order, the member of the exchange notifies his customer by wire or by mail. A sample of the written notice is as follows:

New York, *August 31, 1906.*

Mr. D. W. James.

Dear Sir: In accordance with your instructions, we have this day made the following transactions for your account, subject to the rules and regulations of the New York Cotton Exchange:

Sold, 2500 Dec. 9.08
2500 " 9.09

Please take notice that all orders for the purchase or sale of cotton, coffee, grain, and provisions for future delivery are received and executed with the distinct understanding that actual delivery is contemplated and the party giving the order so understands and agrees. It is further understood that on all marginal business the right is reserved to close transactions when margins are near exhaustion without notice.

Springs & Co.,
(Successors to J. H. Parker & Co.)

All of said notice is in print with the exception of the address, the statement of the amount of cotton sold, and the price.

The order for these transactions was transmitted by telegraph in cipher, and the notification of execution was also transmitted by telegraph in cipher. The cipher was from Shepperson's Code of 1881, which has been in common use by dealers in cotton for many years, and was used by the plaintiffs and defendant through the years of their mutual relations. This code contains the following:

It is distinctly understood that all orders sent by this table are to be subject in all respects to the rules of the cotton exchange of the market where executed. With every telegram sent by this table, the following sentence will be read as part of the message, namely, this purchase has been made subject to all the by-laws and rules of

our cotton exchange in reference to contracts for the future delivery of cotton. All orders sent by this code to buy or sell for future delivery will be with the distinct understanding that the purchases or sales so ordered are to be in every respect subject to the by-laws and rules of the cotton exchange of the market in which they are executed.

The learned referee has found as matters of fact that in all the dealings between the plaintiffs and the defendant, the plaintiffs had contemplated actual delivery of the cotton bought and sold for the defendant; in some of the transactions plaintiffs actually received and delivered transferable notices with warehouse receipts for the said cotton; that the plaintiffs did not understand or know that the defendant did not intend to deliver or accept delivery of the cotton sold or bought by the plaintiffs for him, if such were his intentions; that the plaintiffs did not understand or intend that the said orders and requests were orders to pay money according to differences in the cotton market at the time of the purchase and at the time of the sale; that all receipts and deliveries of cotton made by the plaintiffs for the defendant on his contracts were genuine bona fide deliveries and receipts of cotton, and were not understood by the plaintiffs to be fictitious or formal transactions; that the cotton represented by the warehouse receipts received by and delivered by the plaintiffs on the defendant's contracts represented actual cotton of the character and quality capable of being used by actual users of cotton; that the above transactions were not wagers or bets made to depend upon the course of quotations and the prices of cotton on the New York Cotton Exchange and were not intended by the plaintiffs or understood by the plaintiffs to be such bets or wagers; that all the orders and dealings between the plaintiffs and the defendant were understood by both parties to be intended to be made upon the New York Cotton Exchange and in accordance with its rules, regulations, and customs; that the New York Cotton Exchange was a market for the dealings in actual cotton, for delivery and receipt of actual cotton, and was not an association or agency solely for the purpose of wagering and speculating on the fluctuations and prices of cotton.

These findings of fact are sustained by the evidence. That both the parties contemplated that the transactions should take place upon the cotton exchange and were to be controlled by its rules and customs is not susceptible of argument. The defendant, who, upon his own testimony, has been engaged in doing business through members of the cotton exchange upon that exchange for from fifteen to twenty years, and who, the testimony shows, has taken his profits from time to time without objection, for the purpose of avoiding this liability now testifies that his purpose was "to play the market," and that he did not intend either to deliver or receive a pound of the cotton which he ordered the plaintiffs to buy and sell upon the exchange for his account.

If we assume that such testimony, given under such circumstances, is credible, that would not be ground for declaring the transactions illegal. Bibb *v.* Allen (149 U. S., 480) was an action for commissions for services rendered and money paid and advanced by plaintiffs for and at the request of the defendants in selling for their account and as their agents cotton for future delivery according to the rules and regulations of the New York Cotton Exchange. The court reasserted

the proposition that it is well settled that contracts for the future delivery of merchandise or tangible property are not void, whether such property is in existence in the hands of the seller or to be subsequently acquired, and that the burden of proof is upon the party who seeks to impeach such transactions by showing affirmatively their illegality; that a transaction which on its face is legitimate can not be held void as a wagering contract by showing that one party only so understood and meant it to be; and in sustaining a judgment for the plaintiffs alluded to the fact that in the memorandum or slip contracts the sales were described as made subject to the rules and regulations of the New York Cotton Exchange; that the parties made use in their telegraphic correspondence of Shepperson's Code, and said:

It is shown that the rules and regulations of the New York Cotton Exchange recognized no contracts except for the sale and purchase of cotton to be actually delivered. These rules and regulations impose upon the seller the obligation to deliver the cotton sold, and upon the purchaser the obligation to receive it. * * * These rules, which were authorized to be made by the statute of the State of New York, under which the exchange was incorporated, enter into and form a part of the contracts of sale in this case.

Kingsbury *v.* Kirwan (77 N. Y., 612) was an action brought by a cotton broker to recover on short sales of cotton made by them on defendant's orders. The principal defense was that the alleged contracts of sale were mere wagers on the future market price, and so void under the statute. The court stated the rule:

To render a contract for the purchase and sale of property void as a wagering contract, it must appear to have been the understanding when the contract was made that the property should not be delivered, and that only the difference in the market price should be paid or received.

Held, that the dealings of the parties were not shown to have been wagering transactions so clearly as to justify the court in nonsuiting plaintiffs.

In Story *v.* Solomon (71 N. Y., 420) the court said:

If it had been shown that neither party intended to deliver or accept the shares, but merely to pay differences according to the rise or fall of the market, the contract would have been illegal. We may guess that the parties were speculating upon the fluctuations in the price of the stock, and that the defendant was not to be required to take or deliver any stock in any case, but simply to pay differences. But a contract which can have legal interpretation and effect should not be condemned, without any proof, in that way.

citing with approval Bigelow *v.* Benedict (70 N. Y., 202).

The defendant claims that the plaintiffs have not shown that they have expended and laid out for his benefit the amount sued for; that they did not keep on hand the specific contracts for future delivery made by them under his direction for his account up to the time that he directed them to close out the transaction by purchasing or selling, as the case might be, and that in their dealings with such contracts they violated their duty as his agents, and that therefore he is relieved from liability.

We do not think that the rules governing the relations of principal and agent apply in their entirety to the relation of the defendant as principal and the plaintiffs as members of the New York Cotton Exchange. They were not employed to buy a specific piece of property and to hold it for his account. No specific cotton, identifiable by marks and numbers, was ever within the contemplation of either party to the contract. By the rules of classification of the cotton

exchange, where it was contemplated that the transactions should be had, good delivery could be made of any cotton certified as coming within the classification dealt in to be delivered at any time within the month of delivery specified. Cotton upon the exchange is dealt in by units of 100 bales of 500 pounds each, and such a unit is called a "contract." Actual delivery is made upon transferable notices and warehouse receipt. Such warehouse receipt is transferable from hand to hand and constitutes as valid a delivery as the actual carting away of the cotton itself from the warehouse. The very purpose of an exchange is to facilitate business, and as the growth of commercial and banking business has necessitated the economy of the banking clearing house, so the stock exchange and the cotton exchange have adopted clearing-house facilities. A broker upon the exchange may represent many customers, and may execute during the day with many other members many contracts, both of sale and purchase. It would be as idle to insist upon an actual delivery between the members of the exchange as it would be to compel the banks to cart to each other's banking house the actual money called for by the checks severally received by each upon the other. So that the rules of the exchange provide for certain methods of clearing. It will be remembered that each transaction occurs across the ring and is evidenced by a so-called slip, which is in effect a bought and sold note, or, in the venacular of the exchange, "a contract," which provides for actual delivery. The first method of clearance is by direct settlement—that is, if A has sold to B and B has sold to A, the two contracts are offset one against the other. If there is a difference in the price, that difference is paid. Second, the ring settlement, which consists of three or more transactions which may be offset, and by payment of differences lead to the same result. By this offset there is a substitution through the chain or ring of parties. Another method is called the "street let-out," which is simply another method of arriving at a novation or substitution. These transactions are evidenced by the clearing-house sheets and the resulting differences are settled by checks drawn, each party being required to deposit up to $5 a bale as a margin for his transaction, from which the payments are made. This settlement of exchange transactions is entirely between the members of the exchange, who only know each other in the transaction, and in no way affects the customer, whose name in such transactions is never, as it is called, "given up" to the other side. A deals with B, as a member of the exchange, upon the exchange contracts, A not knowing whom B represents and B not knowing whom A represents. These settlements are not only permitted by the rules of the exchange, but are required. Section 119 of the by-laws provides that—

In case any member shall purchase or sell by order, and for the account of any person, without notice being given or required of the name of the party from whom such purchase, or to whom such sale was made, and it shall subsequently appear that such purchase or sale may be offset and settled by another contract, made by the said member for account of himself or others, he may make such offset and settlement at any time before the maturity of the original contract, and thereupon the said member, or his firm, if he be trading in the name of a firm of which he is a member, shall be substituted in the place of the said party from whom such purchase, or to whom such sale was originally made, and shall be deemed a party to the contract for all purposes. Such substitution shall not deprive the said member of his right to any sum to which he would be entitled as commission under the original contract.

Rule 6:

* * * Any member who may find that he holds, for account of his correspondents, contracts, both of sale and purchase, in the same month which offset each other, shall be authorized to offset and settle such accounts and to substitute therefor his own name, and he shall be responsible to his principals for the strict fulfillment of such contracts, and shall be liable to them for all damages or loss they may sustain by reason of such substitution.

Rule 7 provides—

* * * That any party holding a contract against another, corresponding in all respects except as to price, with one held by the other party against him, may close both by giving notice in writing to the opposite party, at any time before notice of delivery; or where a "ring" may be formed, all parties thereto shall be compelled to settle upon the terms hereinafter prescribed. * * * It shall be the duty of each party to a transferable notice or to direct settlements or to "rings" that have been accepted and upon which payments are due, to send to the clearing house in a sealed envelope addressed to the party from whom such payments are due * * * a comparison slip of the net balances due on such settlements,

with further provisions providing the details of clearance settlements.

In Chicago Board of Trade *v.* Chrystie, etc. (198 U. S., 236), the Supreme Court of the United States had under consideration the question of the legality of the transactions upon the board of trade and the specific methods herein complained of. The direct question was stated by the court as follows:

It is said that the plaintiff itself keeps the greatest of bucket shops, in the sense of an Illinois statute of June 6, 1887; that is, places wherein is permitted the pretended buying and selling of grain, etc., without any intention of receiving and paying for the property so bought, or of delivering the property so sold.

Mr. Justice Holmes said:

It appears that in no less than three-quarters of the transactions in the grain pit there is no physical handing over of any grain, but that there is a settlement, either by the direct method, so called, or by what is known as "ringing up." The direct method consists simply in setting off contracts to buy wheat of a certain amount at a certain time against contracts to sell a like amount at the same time, and paying the difference of price in cash at the end of the business day. The ring settlement is reached by a comparison of books among the clerks of the members buying and selling in the pit, and picking out a series of transactions which begins and ends with dealings which can be set against each other by eliminating those between, as, if A has sold to B 5,000 bushels of May wheat, and B has sold the same amount to C, and C to D, and D to A. Substituting D for B by novation, A's sale can be set against his on simply paying the difference in price;

and the legality of direct settlements, ring settlements, and hedging was asserted.

The sales in the pits are not pretended, but, as we have said, are meant and supposed to be binding. A set-off is in legal effect a delivery. We speak only of the contracts made in the pits, because in them the members are principals. * * * The proportion of the dealings in the pit which are settled in this way throws no light on the question of the proportion of serious dealings for legitimate business purposes to those which may be classed as wagers, or pretended contracts. No more does the fact that the contracts thus disposed of call for many times the total receipts of grain in Chicago. The fact that they can be and are set off sufficiently explains the possibility, which is no more wonderful than the enormous disproportion between the currency of the country and contracts for the payment of money, many of which in like manner are set off in clearing houses without anyone dreaming that they are not paid, and for the rest of which the same money suffices in succession, the less being needed the more rapid the circulation.

The court also said:

This court has upheld sales of stock of future delivery and the substitution of parties, provided for by the rules of the Chicago Stock Exchange. (Clews *v.* Jamieson, 182 U. S., 461.)

Bearing in mind, then, that the dealings between the plaintiffs and the defendant had reference to and were to be consummated upon the exchange with reference to and controlled by the by-laws, rules, and regulations thereof, which governed the plaintiffs as members thereof, and that those rules and regulations contemplated and required actual performance of the contracts for future delivery and, as between members, provided for clearances by prescribed methods which could be compelled by any member, and that these methods have been approved by the Supreme Court of the United States holding that a settlement by way of set-off is equivalent to delivery and that the defendant does not complain that his directions were not carried out and that he did not receive prompt notice of the sale or purchase, as ordered by him, at the prices reported at the time made, and that he made no question of the accounts received until this suit was brought, what is it that he complains of? That because the contracts which were purchased or sold for his account were settled by way of substitution and set-off between the plaintiffs and other members of the exchange before the time when he gave his order to close the transaction, therefore no moneys had been laid out or expended for his benefit. But for every contract that was set-off against another contract there was a payment pro tanto, because set-off is payment, and where the prices named in the contract differed an actual payment in money took place. So that the effect, so far as the plaintiffs were concerned, was precisely as if when he did order the transaction closed they had paid out the actual sum which represented the difference between the purchase and the selling price. No harm came to him by reason of this transaction. The only persons that he ever knew were the plaintiffs; it was upon their faith and credit that he rested when he gave his orders. They never reported to him the names of the persons with whom they had entered into the contract which he had authorized them to make, either the opposite broker or the principals of that broker. He dealt with the plaintiffs, and the rules required that whenever the substitution and set-off occurred they should be responsible for the strict fulfillment of the contract and be liable to the defendant. It also appeared that at all the times the plaintiffs, when said offsetting and settling occurred, had on their books and in their possession contracts sufficient to supply the defendant and all other customers who had open contracts upon their books.

So that, it seems to us, he not having sustained the burden of showing that his transactions with the plaintiffs were wagers, and it having been shown that they promptly executed his orders as given, and that his transactions eventuated in a loss which was paid by them in the manner indicated, that, irrespective of the question of an account stated, the plaintiffs sustained their several causes of action and were entitled to the judgment rendered in their favor.

We think that the amount of the judgment should be reduced by the sum of $75. On November 8 the plaintiffs, upon the defendant's direction, undertook to close out his December contracts by buying 5,000 bales. They bought 3,500 bales, but were unable to complete without bidding the price up on the customer.

So, in order to save his money and for his benefit, we bought January's at the same time. We made a sale and a purchase of 1,500 December's at 9.90, which filled in his order and the firm was then long of the January's and short of December's, and as soon after as there was any December's offering they bought in the December's and sold

out their January's. That would be a hedge of January's. That was all done in one day. He got his December's at 9.90, whereas, if we had bid in the market for them, he might have had to pay as high as 9.95. I believe there was a profit of about $75.

At the close of the case plaintiffs' counsel asked the referee to allow the $75 to the defendant in the case. For some reason this was not done. We think that should have been allowed. However good the intention and favorable the result to the plaintiffs, the fact remains that the defendant is entitled to the credit, and the amount of the judgment should be accordingly reduced.

It follows, therefore, that the judgment should be modified by reducing the amount thereof by $75, and as so modified affirmed, with costs to the respondents.

All concur.

Three letters submitted by Mr. Violett and referred to on page 810:

NEW YORK, *July 24, 1907.*

Mr. ATWOOD VIOLETT,
New York City, N. Y.

DEAR SIR: Your favor 23d instant, with inclosures, has reached us. We return you herewith the paper signed.

We believe that which you are striving to accomplish a most laudable undertaking, and as you have taken more interest than anyone we know of in an endeavor to put the New York Cotton Exchange on a high plane as regards its contracts and one that will give confidence in every section of this country and all over the world, you are certainly entitled to great praise.

We never could understand why the business of the great New York Cotton Exchange should be kept at a disadvantage with other exchanges because of inequalities that might be speedily remedied.

We are in favor of anything that is fair, and trust your exertions will prove successful and benefits will be derived from them by every member of the exchange.

Yours, very truly,

LATHAM, ALEXANDER & CO.

LEROY SPRINGS & CO.,
BANKERS AND COTTON MERCHANTS,
Lancaster, S. C., February 12, 1907.

Mr. ATWOOD VIOLETT,
New York City.

DEAR SIR: I am in receipt of your circular letter of the 9th, and would say that I thoroughly approve of your position, and, furthermore, I do not believe we have any right to receive any cotton below the grade of low middling white and above the grade of strict good middling white on contract. This will cover, almost any year, 90 per cent of the cotton produced, and it looks as if this should be sufficient to make a contract. I think the members of the exchange are standing in their own light and advertising the exchange to its detriment in not making a legitimate contract, such as would attract legitimate business and put the New York Exchange quotations on a basis of spot quotations in the South. It is a mistaken idea that it would not facilitate business. I do not believe that the exchange can be maintained unless it has legitimate business to govern its contracts.

Yours, very truly,

LEROY SPRINGS.

W. W. GORDON & CO.,
COTTON FACTORS AND COMMISSION MERCHANTS,
Savannah, Ga., February 16, 1907.

Mr. WALTER C. HUBBARD,
President Cotton Exchange, New York City.

DEAR SIR: I am in receipt of a letter from you, as president, to the members of the exchange, reporting conclusions of the board of managers concerning certain grades.

In my letter to you, dated January 18, I stated my opinion of an amendment which would base differences in value of grades upon recent differences in prices for spots in markets in the cotton States, where almost the entire crop is originally sold.

Previously, in conversation with members of the New York Cotton Exchange, I have expressed this opinion to my friends and the reply was, "You don't understand the situation. New York would not get cotton unless there was some special attraction to bring it."

The impression in the South is that for a number of years the attraction has consisted in making the differences in value of grades of such a character that cotton could be delivered on contracts at figures entirely foreign to the actual value of said cotton at date of delivery, thereby deterring the spinner or exporter or dealer from ever accepting delivery on a contract unless for the purpose of himself using it for manipulating succeeding months.

Hostile legislation in the Southern States has been partly due to the universal belief that the methods of the New York Cotton Exchange to attract cotton were deliberately and intentionally framed to benefit members of the exchange at the expense of producers of cotton, and that the result of such methods was, in the majority of cases, prejudicial to the maintenance of prices based upon supply and demand.

As a member of the New York Cotton Exchange, I am interested in the value of its shares of stock, but as a cotton merchant I am greatly more interested in having the New York Exchange so conducted as to enable a dealer to hedge his sales to spinners, and spinners hedge their sales of their goods. I venture the opinion that this is the proper function of an exchange, and if it avowedly ceases to do this it simply becomes an arena for speculation, and, as such, will cease to be of importance or influence in the cotton trade.

I write you my views frankly, because I think very many of your resident members do not realize the seriousness of the situation.

Yours, truly,

WM. W. GORDON.

INDEX.

[Chronologically arranged.

O